PRO-POOR ECONOMIC GROWTH RESEARCH STUDIES
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Reconstruction and Poverty Alleviation in Uganda: 1987-2001

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Reconstruction and Poverty Alleviation in Uganda: 1987–2001

by

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EXECUTIVE SUMMARY

Uganda was a "basket case" in 1986, when the National Resistance Movement under Yoweri Museveni came to power through a successful guerrilla war. The country had suffered from more than 15 years of misrule, violence, and pillaging of economic resources by Idi Amin, Milton Obote, and short-lived military regimes. Real GDP had declined by more than 40 percent, and the response of the populace was to retreat from formal-sector economic activity into primarily subsistence production. The government lost the ability to mobilize resources through an orderly fiscal system, foreign exchange was unavailable, and high levels of inflation were the result of uncontrolled expansion of the money supply through financing deficits. The influential Asian commercial group had been expelled by Amin in 1972, resulting in capital flight and a collapse of the country's established trading systems.

The Museveni government, which has been in power for the past 16 years, has made remarkable progress. First, order was restored in most of the country and a relatively disciplined army was created. Then, early reconstruction, particularly of devastated coffee-producing areas, was undertaken. Gradually, economic growth became positive, inflation rates declined to moderate levels, private investment expanded, and coffee exports recovered.

A critical step was taken in 1992, when a strategy for macroeconomic policy was adopted and implemented by an extraordinarily capable group of "technocrats" within the Ministry of Finance, Planning, and Economic Development. The key policies were adopting a floating exchange rate, which eliminated the parallel-market premium; instituting a strict program of budget control, which also limited the expansion of the money supply; and dismantling the previous system of official controls on marketing coffee and cotton through monopsonistic cooperatives and marketing boards to allow free, private trade in purchasing and exporting crops. These, of course, are the standard policies that have been advocated in many structural adjustment programs in Africa and elsewhere, many of which have been unsuccessful.

From 1992 to 2000, per-capita real GDP in Uganda grew at almost 8 percent per annum. There was a bit of "good luck" with a temporary surge in world coffee prices as a result of frost in Brazil. It is clear, however, that the increase in world prices was transmitted to peasants through the newly competitive marketing system, and that there was a rise in marketed output. Private investment increased, as did government investment, particularly in infrastructure rehabilitation, with the help of international-donor assistance. The proof that this has been more than mere good luck is that even since coffee prices fell drastically, Uganda's growth has been sustained.

We have excellent data on household consumption from a series of national surveys that allow us to assess the degree to which poverty has been alleviated as a result of this growth. Using household measured consumption, a poverty line was constructed consistent with consumption of 3,000 calories daily per adult male equivalent. The proportion of Ugandans having consumption below this poverty line declined sharply, from 56 percent in 1992 to 35 percent in 2000. For rural areas, the decline was from 60 percent to 39 percent, and in urban areas, 28 percent to 10 percent. This remarkable achievement is not sensitive to the arbitrary choice of the poverty line because real per-capita consumption increased in every decile of income distribution. Inequality, measured by Gini coefficients, remained stable within both rural and urban areas, although the overall measure of inequality increased slightly as a result of net transfer of population from lower-income rural areas to higher-income urban areas. Poverty reduction arose from growth rather than from redistribution, and the benefits of growth were widely distributed.

Poverty rates declined in all sectors, but agricultural progress was the dominant factor. Between 1992 and 1996, 48 percent of the overall decline in poverty was experienced in the cash-crop sector, which accounted for 19 percent of the total population. This is not surprising, given the coffee boom of 1994 and 1995. However, between 1996 and 2000, the poverty rate declined dramatically in the food-crop sector and fell further in the cash-crop sector. Other sectors, being significantly smaller, accounted for much smaller shares of overall poverty reduction (for example, manufacturing, 3.7 percent; construction, 1.0 percent; and government services, 7.6 percent).

The primary channels through which policies have affected poverty reduction are the exchange rate and increased competitiveness in the liberalized trading system. Together, these caused prices received by peasant producers to increase dramatically, which both increased their income from existing production levels and provided incentives for expanded production. These effects were quite evident for producers of export crops. However, the even more important poverty reduction for food-crop producers is a bit surprising. It appears that the general improvement in transport and competitiveness of traders provided opportunities for peasant farmers to increase their production and marketing surpluses. In addition to increasing income from agricultural production, they also diversified their production and increased their participation in rural nonfarm activities (principally trading and services).

Why has Uganda succeeded in reducing absolute poverty as a result of adopting “Washington consensus” structural-adjustment policies, when so many other countries have failed? First is the Ugandan commitment to the program and the fact that it was actually implemented. The structure of the economy also proved favorable. Uganda is overwhelmingly agricultural: Some 84 percent of the population is still classified as rural, and within the rural sectors, production is almost exclusively undertaken with family labor by smallholders. Land is relatively available, and the response to the crises of the 1970s and 1980s was the retreat into subsistence production. Even today, more than 80 percent of food grown by peasant families is for their own household consumption. The typical unit grows food for its own consumption and markets surpluses when market opportunities arise. Many also grow some cash crops. When inputs are available in markets, smallholders purchase implements, fertilizer, pesticides, and improved seeds and livestock. In addition to agriculture, the families engage in other small-scale trading and fabricating activities. Wage labor in rural areas is not widespread, and many agricultural families have members working elsewhere (principally in towns) and receive remittances from them.

In a crude sense, Uganda is highly rural and relatively egalitarian in terms of access to land. Therefore, increasing opportunities to produce surpluses for the market at prices that provide incentives have resulted in higher real income and consumption for peasants who have been able to respond. However, it is likely that the “easy” gains have been realized. Those remaining in poverty probably have specific characteristics that make them less able to respond.[1] There is also evidence that those who have increased their incomes the most in rural areas have had more education, better health care, and more assets such as livestock and land (Larson and Deininger, 2001). This is consistent with evidence from other countries in that poverty reduction is more widespread in regions where education and health-care levels are high and landlessness relatively low.

Uganda has adopted a well–thought-out poverty reduction strategy that has four pillars: sustaining economic growth and structural transformation, ensuring good governance and security, increasing the ability of the poor to raise their incomes, and improving the quality of life among the poor. The first two pillars are responsible for most of the progress that has been made in Uganda’s poverty reduction. The restoration of security has played an important role, and the persistence of insecurity in the North explains its higher levels of poverty and lower rates of progress in reducing poverty.

A set of programs is now in the early stages of implementation for increasing the ability of the poor to raise their incomes. The programs include transport improvements, increased access to markets, microfinance, agricultural research and extension, and education. These represent the beginning of special programs targeted to the poor. It is too early to say how effective they will be, but the low performance of public institutions and the prevalence of corruption will pose obstacles to success. The existence of many locally based voluntary organizations may play a role. These institutions have been significant in dealing with the HIV/AIDS pandemic and represent a largely unrecognized pool of social capital that can be harnessed to help the poor.

Major programs, many with considerable donor assistance, have been devised to provide primary education, health-care services, and clean water and sanitation for the poor. So far, expenditures have increased considerably, but concerns remain about the effectiveness of these programs to increase the level and quality of services reaching the poor.

Uganda stands out in terms of the remarkable achievement it has made in recovering from violence, civil war, and economic collapse. Its high rates of growth in the 1990s have resulted in significant reductions in the incidence of extreme poverty. The government has been forthright in making poverty elimination its principal goal and formulating a coherent strategy for achieving it. However, the remaining challenges are enormous, but there is reason to be optimistic and believe that progress can be maintained and even accelerated.

[1] See Bevan and Ssewaya (1995), for an interesting analysis of the social dimensions of poverty, and Republic of Uganda (2000a), for contemporary reports on which people are most disadvantaged.

INTRODUCTION

Uganda has emerged from a turbulent history of more than 15 years of violence, economic collapse, military coups, HIV/AIDS, and civil war with more than a decade of stable government, improved security, reconstruction, economic growth, and significant improvement in the economic well-being of the poor. This paper analyzes the changes in Uganda's poverty levels over time and identifies the channels through which specific policies and aggregate economic growth have served to increase income and economic well-being among the poor. The author also identifies those groups that remain in poverty.

THE SETTING

Geography and Demographics

Uganda lies on the equator, north and west of Lake Victoria, and is bounded by Sudan, Kenya, Tanzania, Rwanda, and Congo. Uganda's capital, Kampala, lies more than 1,000 miles from the Indian Ocean and is connected to Kenya by a rail line and a congested highway that terminates at the port of Mombasa. The land around Lake Victoria in the South Central and Western regions consists of well-watered volcanic soils that are highly fertile. Traveling north and east, rainfall diminishes, as does soil fertility, with the northern parts being semi-arid. Historically, the South was a zone of settled agriculture, while the North was primarily pastoral.

Sachs and Warner (1995) demonstrated that landlocked countries in the tropics are disadvantaged in terms of economic growth when other factors are controlled. Easterly and Levine (1997) and Collier and Gunning (1999), among others, demonstrated that, in particular, landlocked African countries in the tropics perform relatively poorly economically because of the high costs of transport and communications, which makes integration with the world economy more difficult. Thus, one could say that, by virtue of its geographical setting, Uganda was dealt a "bad hand."

Furthermore, the surrounding countries of Sudan, Congo, and Rwanda have had sustained warfare, genocide, and unrest for the past two decades. Uganda has been in a "bad neighborhood." In addition, the HIV/AIDS pandemic has its origins in the Lake Victoria basin, and Rwanda and Uganda were the first countries to be hit hard by the disease.

The regions of Uganda differ not only by environmental conditions but also by distinctly different ethnic groups that vary by major racial characteristics and languages. The Baganda and other Bantu-language groups in the South, for example, differ significantly from the Nilo-Hamitic language groups in the North. As of 2001, Uganda's population was approximately 22 million, with the Baganda accounting for about 35 percent of that total.[2]

Colonial Period

From 1900 to 1962, Uganda was a British protectorate. In 1900, the kabaka (king) of the region of Buganda, now part of Uganda, was persuaded to ask the British to protect his kingdom in a time when the scramble for Africa was at its height, with competing claims on African territories by France, Germany, and Belgium as well as Britain. The protectorate came to include a much larger area than Buganda, and the present-day boundaries were established. Part of the agreement with Britain entailed banning large-scale European settlements such as existed in Kenya, and a form of indirect rule was established in which the overall political authority of the colonial power was exercised through traditional kings and chiefs. Given the different societal and political structures of various groups, tension always existed between the groups, tension the British did not discourage.

The basic structure of Uganda's economy at this time was a smallholder-based agriculture, with crop production dominant in the South and animal husbandry important in the North. Production of cash crops, principally coffee and tea in the South and cotton and hides in the North, was encouraged. Given the small number of British administrators in the country, Asians (principally from Gujarat and Sind Provinces of India and Pakistan, respectively) settled in Uganda and dominated trade and commerce throughout the country. Over time, the Asians established relatively large-scale sugar plantations and operated coffee-processing and cotton-ginning facilities.[3]

In order to train clerks and functionaries, the British encouraged the establishment of schools by missionary groups. Divisions arose between Roman Catholics, who sent French missionaries, and Protestant groups, who offered British missionaries, and relations with an important Muslim minority were sometimes strained. As a result, education flourished where it was most encouraged by traditional rulers in the South and West, particularly by the Baganda, while education was much less accepted in the North and East.

Using classic "divide and conquer" tactics, the British recruited soldiers for the army and police forces primarily from the North, while a preponderance of the Non-commissioned Officer Corps was recruited from educated Africans from the South. This division has proven to be disastrous for Uganda's political stability in the post-independence period.

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[2] The following sections are based on Library of Congress (1990), an excellent and concise source for the history and characteristics of Uganda. The document provides a good bibliography of the major sources of Ugandan historical and political analysis.

[3] The role of the Asian communities in East Africa was very similar to the commercial role played by overseas Chinese communities in Southeast Asia. Their economic dominance, encouraged by the colonial power, was widely resented by indigenous peoples.

During the colonial period, Uganda was partnered with the other British East African countries of Kenya and Tanganyika in a common-services organization that ran the region's post and telecommunications services, the railways, ports, customs services, agricultural research, and higher education. The first, and premier, university was Makerere in Kampala, which was affiliated with University College in London.

Post-Independence Regimes

First Obote Government: 1962–1971

Although independence movements occurred in Uganda and Tanganyika during the colonial period, the primary agitation for independence came from Kenya, where the Mau-Mau movement with armed insurgence was a threat to continued British control. Eventually, in the spirit of the times, independence was negotiated and, in 1962, Uganda became a sovereign state. Under the independence agreement, Uganda, Kenya, and Tanganyika were to remain part of the East African Common Market, and the common-services institutions would continue to exist under joint control.

Milton Obote was elected Uganda's first prime minister, and the country's adopted constitution envisioned a Westminster-type parliamentary democracy. Competing political parties were organized largely along ethnic and religious lines. Obote's support came primarily from the North and East and was defined largely by opposition to dominance by the largest, richest, and best-educated group, the Baganda, with its strong institutions of kingship.

Over the years, Obote responded to threats to his control by severely limiting the role of opposition parties and declaring Uganda a one-party state. He nationalized several industries and commercial establishments, strengthened the monopoly control of the cooperatives in buying and processing export crops, strengthened the control of the crop marketing boards, and created new state-owned enterprises. He pursued a nonaligned foreign policy and joined with Tanzania (created by the union of Tanganyika and Zanzibar in 1964) in reducing the effectiveness of the common market as a result of rivalry with Kenya.

Meanwhile, severe rifts were building within the army. In 1966, Northerners in the army assaulted and harassed soldiers from the South. In 1971, the Lugbara and Kakwa from the West Nile (Idi Amin's group) were slaughtering northern Acholi and Langi, who identified with Obote. The army had expanded greatly through heavier recruiting in the North.

Idi Amin Regime: 1971–1979

By January 1971, Obote wanted to eliminate the threat from the head of the army, General Idi Amin, and ordered Langi officers to arrest Amin and his supporters in the army (Library of Congress, 1990). Amin, however, decided to strike first, and, on January 25, his troops easily overcame his disorganized opponents. Almost immediately, Amin "initiated mass executions of Acholi and Langi troops, whom he believed to be pro-Obote" (ibid.).

Amin then established a military government, "placed military tribunals above the system of civil law, and appointed soldiers to top government posts and parastatal agencies. … Uganda was, in effect, governed from a collection of military barracks scattered across the country, where battalion commanders, acting like local warlords, represented the coercive arm of the government" (ibid.). The regime was rent with division, executions and massacres were prevalent, and each new purge provided opportunities to reward another group of inexperienced thugs with economic resources.

In September 1972, Amin summarily expelled almost all of Uganda's 50,000 Asians and distributed their assets to army men. "This expropriation of property proved disastrous for the already declining economy. Businesses were run into the ground … . Sugar production literally ground to a halt, as unmaintained machinery jammed permanently" (ibid.).[4]

As the formal sectors of the economy collapsed, coffee producers smuggled as much of their crop as they could to Kenya, and parallel (black) markets became the principal source of imported goods, including spare parts for vehicles and equipment and agricultural implements and inputs. This was both expensive and dangerous, however, and people who had participated in the "modern sector" returned to the land and engaged primarily in subsistence production. Cash-crop production also fell, as farmers had to provide for their own food requirements. As government services ceased to exist, self-help local organizations were created in villages to provide basic services, mainly primary schools. Uganda's infrastructure crumbled, making transactions and transportation costs prohibitive, further accelerating the retreat into subsistence production.

Tanzanian-led Interim Regime: 1979–1980

Amin invaded Tanzanian territory in November 1978, presumably to divert attention from Uganda's internal disarray. Tanzania counterattacked and welcomed Ugandan exiles to join in the invasion of Uganda. The Tanzanian-led forces captured Kampala in April 1979 and Amin fled. An interim government was established under Tanzanian direction with Ugandan officials. In jockeying for position in the interim government, leaders such as Yoweri Museveni, who had marched with the Tanzanian forces, began to recruit private armies, while a weak caretaker regime prepared for new elections. Elections were held in December 1980, and Milton Obote was returned to power despite widespread charges of electoral fraud.

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[4] It is impossible to estimate the magnitude of the costs to the economy of the expulsion of this entrepreneurial class. Had the group's assets been expropriated but allocated to African entrepreneurs with managerial capacity and interest, the costs might have been less. There seems to be general appreciation of the fact that the expulsion had been extremely costly, which led to the invitation issued in 1992 for Asians to return and reclaim their assets (which by then had deteriorated).

Second Obote Government: 1981–1985

Shortly after Obote's new government took office, Yoweri Museveni declared himself head of the National Resistance Army, and a guerrilla war ensued. Large areas in the South and West were hostile to Obote, and they began to occupy territory. In response, Obote's army fought savagely and forcibly removed (and massacred) some 750,000 people from an area known as the Luwero triangle, which had been the most productive coffee-growing area of the country. Farms were looted, tree crops were destroyed, and the population was forcibly removed to internment camps. Widespread violence also occurred in the Northwest, and it became clear that Obote's army was out of control and guilty of enormous human-rights abuses.

When he regained power, Obote attempted to initiate economic reforms and work with international donors for their assistance with the task of reconstruction. However, given the costs of the military, and the disruption from guerrilla war and the undisciplined response to it, both Uganda's economy and its state of security declined precipitously. In 1985, facing revolt of the army under the command of General Tito Okello, who had mobilized troops that occupied Kampala in July of that year, Obote abruptly departed for Zambia, allegedly with a substantial part of the much-diminished national treasury.

General Okello invited troops formerly loyal to Amin, who were in exile in Sudan, to return. They did so with a vengeance and engaged in indiscriminate looting. This further boosted support for Museveni's eventual revolution. The new military government was short-lived, and the National Resistance Movement captured Kampala in January 1986 and was enthusiastically welcomed by the local civilian population.

Museveni Regime: 1986–present

The National Resistance Movement came to power with a guerrilla army consisting largely of 9- to 15-year-old boys with light weapons. They had been recruited in the devastated areas and many were orphans. They had spent three years in the "bush," with the movement effectively governing areas it controlled. The boys faced a country that had known only violence and insecurity for 15 years, a government apparatus that was incapable of mobilizing resources or providing services, a large civil service whose workers could not begin to live on their pay, a crumbling infrastructure, and the most productive agricultural areas ruined and overgrown. There were no foreign-exchange reserves, and inflation was raging.

As Museveni surveyed the damage, he identified several immediate tasks that would challenge his new administration:

- Create security,
- Begin rehabilitation of physical infrastructure,
- Control inflation,
- Reestablish the country's fiscal system,

- Stimulate exports,
- Reform/reconstruct the civil service, and
- Negotiate international assistance.

The new regime lacked a clearly defined strategy for dealing with these issues. Museveni's academic training had been in Marxist economics at the University of Dar es Salaam in Tanzania, and he had spent several years in guerrilla warfare with FRELIMO in Mozambique. He certainly did not trust Western agencies and free-market solutions. At the same time, he clearly did not want to repeat the mistakes of command economics that had crippled Mozambique and Tanzania. He was open to a wide range of ideas, was eager to learn, and was pragmatic in being willing to experiment.[5]

Evolution of Uganda's Economy: 1972–2001

During the Amin period, regular data collection and statistical reporting had low priority; as a result, the gross domestic product (GDP) series published by the Government of Uganda and reported in international databases, including the World Development Indicators (World Bank) and the International Financial Statistics (International Monetary Fund), began only after 1982. Nevertheless, full series of GDP shares of activity are published going back to 1960. Collier (1999) estimated GDP series from 1971, and the data are reproduced in Collier and Reinikka (2001a, p. 20) and shown in Table 1.[6]

[5] A group of about 10 economists with African experience and varying policy orientations was financed by the Canadian International Development Research Centre to spend three months in the summer of 1986 in Kampala to help the new government identify policy strategies and necessary actions. The author was a member of this group, which met at least twice a week with the president for free-flowing "seminars" in which he was involved and eager to evaluate new ideas and receive feedback on his own proposals. He was particularly concerned about the degree to which donor agencies had an agenda that would compromise Uganda's sovereignty. For further information, see the report the group prepared for the president (International Development Research Centre, 1987).

[6] Since 1998, considerable resources and talent have been devoted to generating statistics and monitoring economic performance, much of it under World Bank technical assistance projects. Indeed, the data generated in the 1990s are probably the best in Africa. Despite the inherent problems of data collection in a country with poor transportation and communication and a huge proportion of the population working on its own account, including a large subsistence component, sophisticated surveys have been carried out by very competent researchers, and the resulting data appear to be internally consistent.

Table 1: The Level and Composition of Economic Activity in Uganda, 1971–1999

Economic Activity	1971	1986	1994	1997	1999
GDP per capita (index 1971 = 100)	100.0	58.0	69.0	80.0	86.0
Volume of coffee exports (000 tons)	191.0	141.0	152.0	265.0	216.0
War-Vulnerable Activities (percentage of GDP, 1991 prices)					
Asset-intensive activities (manufacturing)	8.8%	4.4%	6.0%	8.6%	9.6%
Transaction-intensive activities (transport and commerce)	21.2%	16.1%	17.2%	17.7%	18.2%
Asset-providing activities (construction)	12.5%	3.5%	5.5%	7.6%	7.9%
Subtotal	**42.5%**	**24.0%**	**28.7%**	**33.9%**	**35.7%**
War-Invulnerable Activities (percentage of GDP, 1991 prices)					
Subsistence activities, excluding livestock	20.5%	36.0%	26.9%	21.0%	20.3%
Unassigned activities	37.0%	40.0%	44.4%	45.1%	44.0%

Source: Collier and Reinikka, 2001a

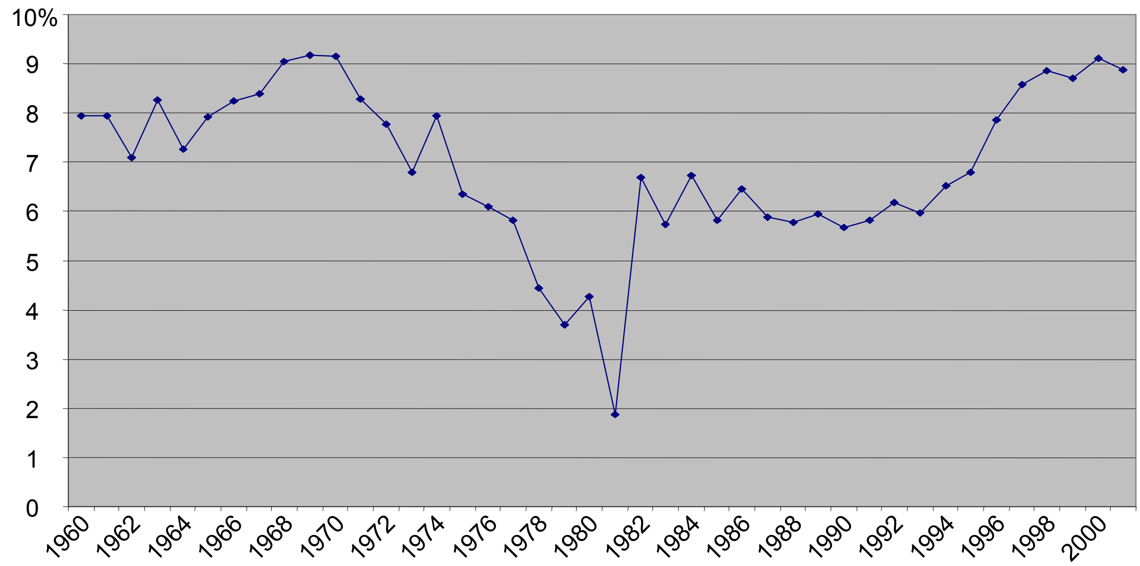
These estimates clearly show the decline between 1971, the year Idi Amin came to power, and 1986, when the Museveni regime took over. Since 1986, gains have been rapid, but the economy is probably not yet back to pre-Amin levels. There are many problems with data quality, but these numbers are consistent with other observations of Uganda's decline. The coffee export figure, in particular, shows a large decline between 1971 and 1986 and a remarkable recovery thereafter. However, coffee was smuggled out of Uganda during the "bad years," and substantial amounts of coffee from Congo and Rwanda are now smuggled in, overstating the swings. Nevertheless, the general picture is accurate. The remaining numbers further confirm the substantial shift of activities out of the formal sector into subsistence activities during the Amin and second Obote regimes.

The full series for Uganda's shares of manufacturing, exports, and gross capital formation, taken from the World Development Indicators*,* are charted in Figures 1 through 3.

Manufacturing as a share of declining GDP (Figure 1) dropped from 1971, the beginning of the Amin regime, fell precipitously through 1982, rebounded in 1983, and stagnated at around 6 percent until 1994, when it began a rapid rise through 2000.[7] At the end of that period, manufacturing was back to its historic high of about 9 percent (still a very low share). Exports as a share of GDP (Figure 2) fell steadily after independence, but this fall accelerated after 1971. Exports then stabilized at around 8 percent (with strange fluctuations from 1978 to 1992, which may be the result of data artifacts) and, for the most part, have risen since 1994. These data are further complicated by fluctuations in the world price of coffee, particularly from 1995 to 1998.

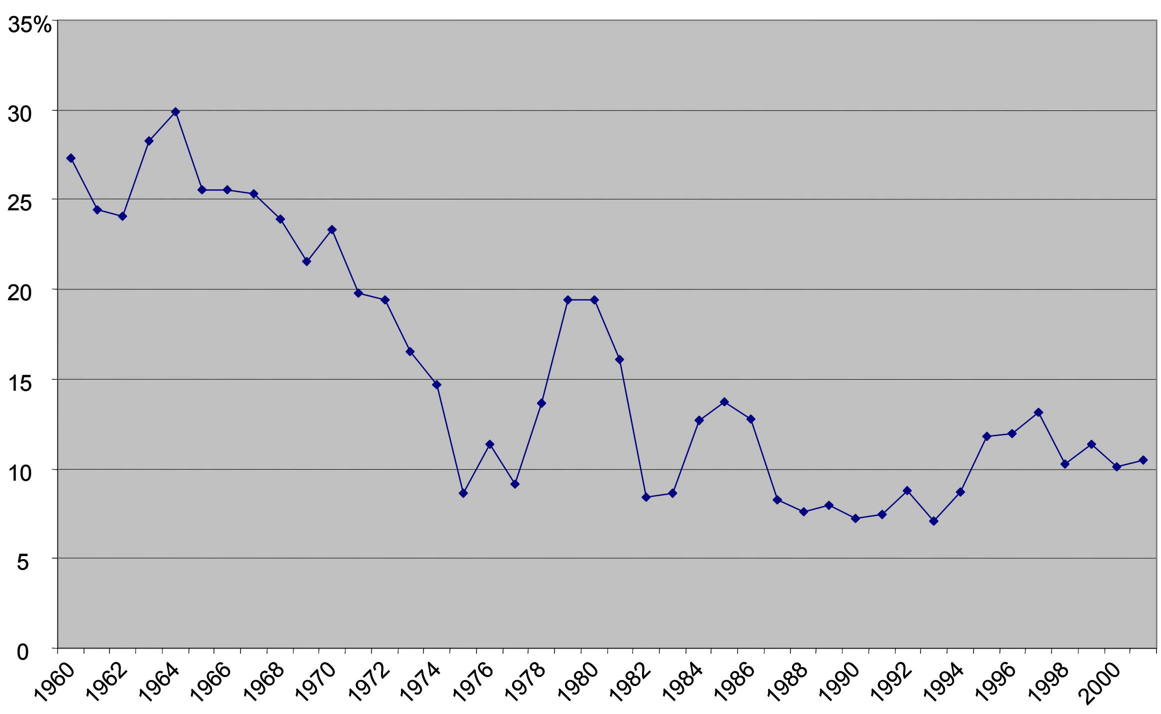
[7] It is difficult to evaluate the discontinuity of the series in 1982, when the currently published GDP series began. However, the general picture in these and subsequent charts on shares of GDP are consistent. Growth and structural change occurred from 1960 to 1972. Disastrous declines were experienced between 1972 and 1981. From 1982 to 1988, the economy remained at low levels of efficiency and output. Since then, Uganda has experienced growth, with sustained high rates through the 1990s.

Figure 1: Manufacturing as Percentage of GDP, 1960–2000



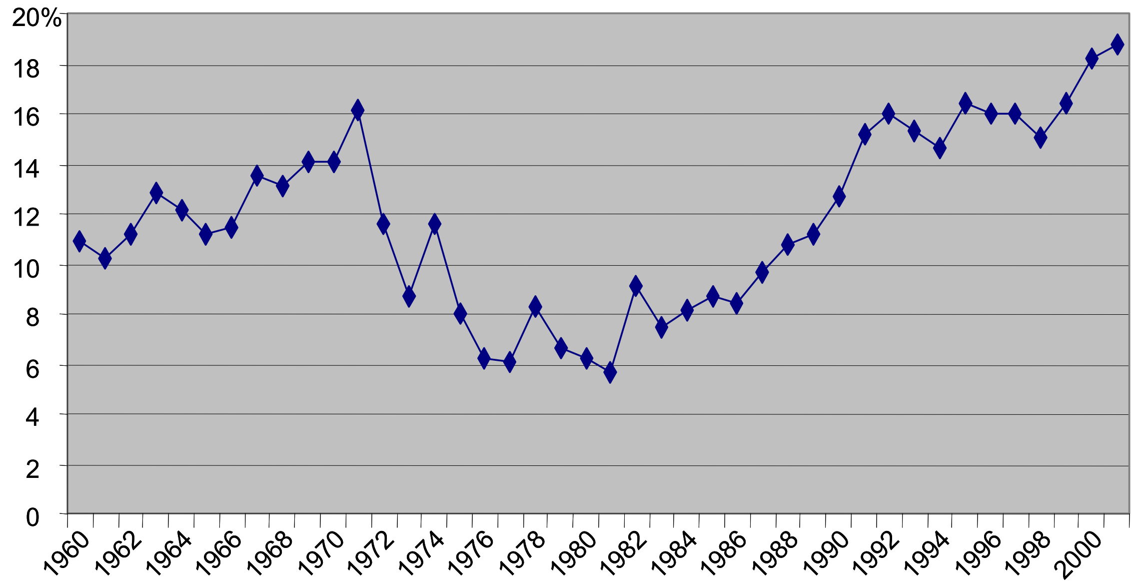
Source: World Development Indicators

Figure 2: Exports as Percentage of GDP, 1960–2000



Source: World Development Indicators

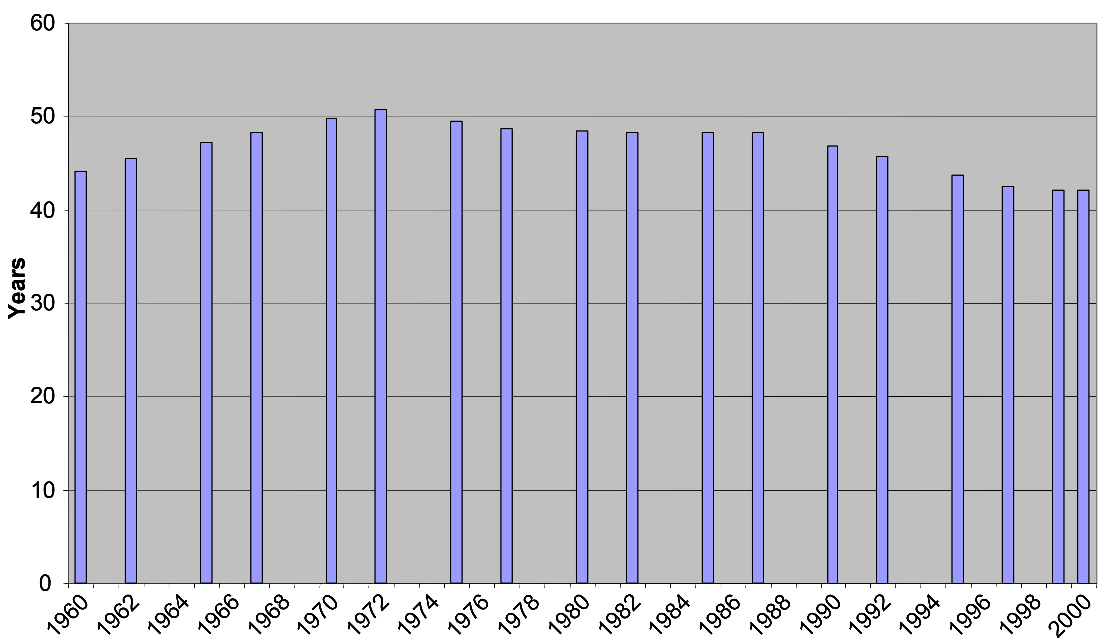
Figure 3: Gross Capital Formation as Percentage of GDP, 1960–2000



Source: World Development Indicators

Gross capital formation as a share of GDP (Figure 3) fell from 16 percent in 1971 to a low of 6 percent in 1982 and rose from 8 percent in 1987 to 19 percent in 2001. Once more, the picture of decline and recovery is quite clear.

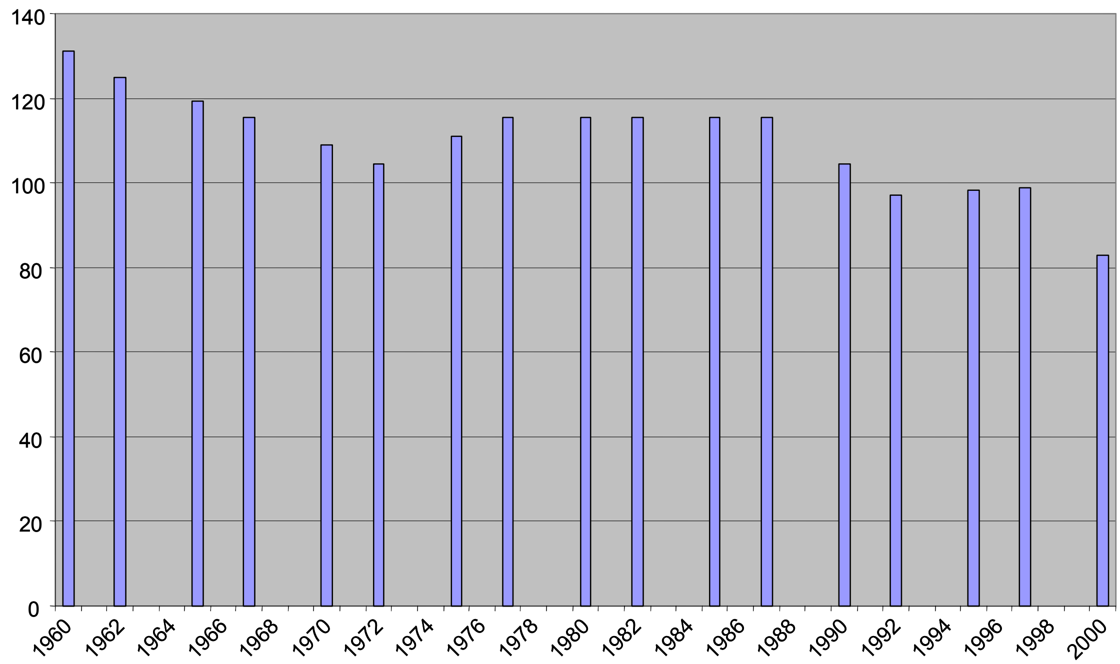
Figure 4: Uganda: Life Expectancy at Birth, 1960–2000



Source: World Development Indicators

Figure 4 shows measures of life expectancy at birth in Uganda since 1960. The improvement from 43 years in 1960 to 50 years in 1971 is consistent with growth during the immediate post-independence period. The measure dropped to 48 years in 1982, which was maintained through 1987. The surprising drop to a level of 42 years in 2000 seems inconsistent with Uganda's recovery and growth after the early 1990s, but it reflects the incidence of HIV/AIDS, which began to be felt in the mid-1980s.

Figure 5: Infant Mortality Rate per Thousand Births, 1960–2000

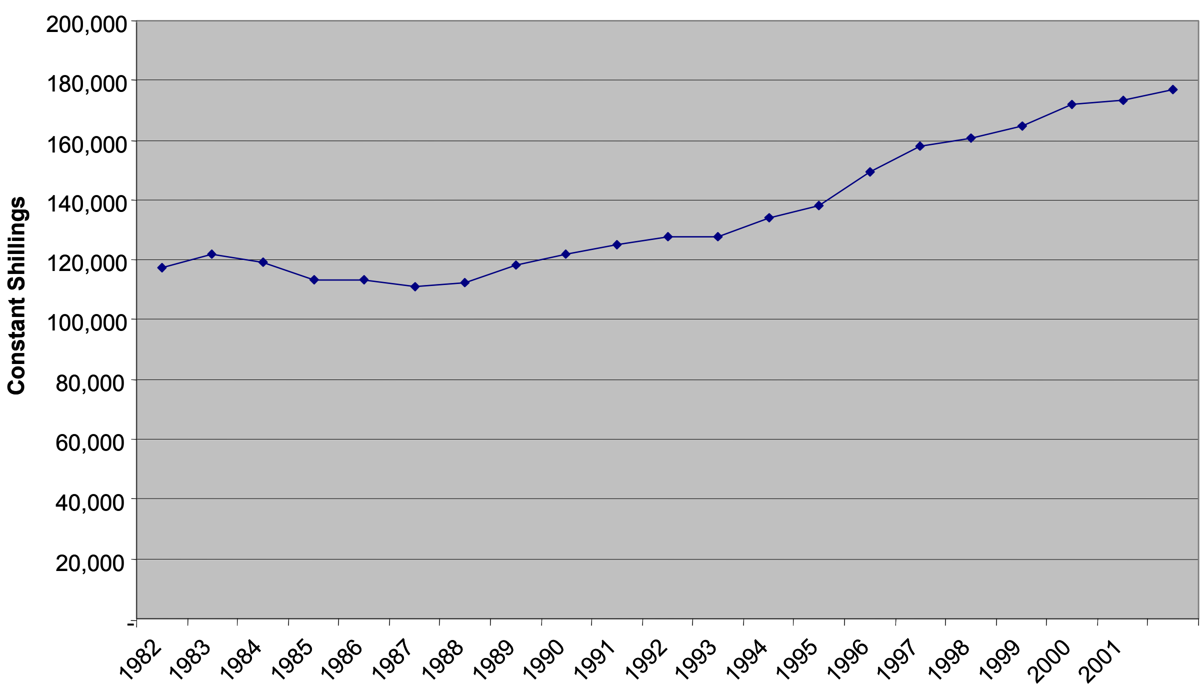


Source: World Development Indicators

Perhaps a better measure of health status, and perhaps an indication of how Uganda's poor have fared in the past 40 years, is the level of infant mortality, shown in Figure 5. The decline of infant mortality from 130 per thousand births in 1960 to 104 per thousand births in 1972 is consistent with positive development in the post-independence period. Infant mortality rates began rising, however, after the Amin takeover and peaked at 116 per thousand births in 1987. Under the Museveni regime, infant mortality has declined, falling to 82 per thousand births in 2000. The infant mortality decline would probably be greater were it not for HIV/AIDS, which puts babies at risk from infected and debilitated mothers.

Looking once more at the per-capita real GDP levels reported in the World Development Indicators (Figures 6 and 7), the pattern is clear.[8] Immediately after the second Obote regime, Uganda experienced a resumption of growth in 1982 and 1983, reaching 3.75 percent in 1983. As the guerrilla war intensified and policies became more erratic, however, absolute contractions occurred from 1984 to 1987. Following the restoration of order, per-capita income grew at 1.3 percent in 1987, 5.0 percent in 1988, and then remained positive, though in decline, through 1991. In 1992, per-capita growth had fallen to zero, and a range of new policies was introduced, leading to a period of growth through the end of the decade.

Figure 6: Real per-Capita GDP, 1982–2001



Source: World Development Indicators

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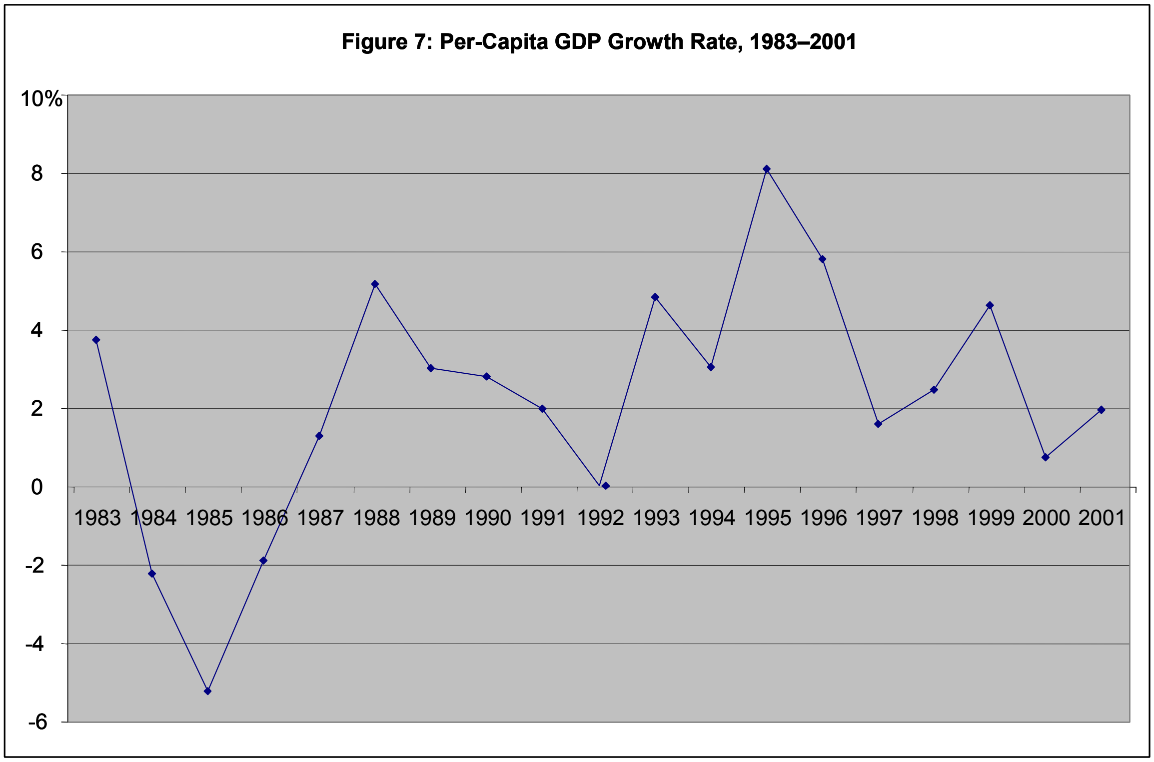
[8] These series, published by the Uganda Bureau of Statistics and reported in the World Development Indicators, have been the country's "official" figures since 1982. The general picture of decline throughout the 1980s is consistent with all other data available, which, since the early 1990s, appear to be of quite good quality. They are consistent with Collier's data, reported in Table 1. The main issue that can be questioned is the measurement of the levels reported for 1971. Similarly, the data reported earlier for shares of GDP for the 1960s and 1970s are difficult to evaluate because no published series for GDP exist for the entire period.



Source: World Development Indicators

The growth rate peaked in 1995, the height of the coffee boom, fell in 1998, rose in 1999, and fell in 2000. It should be kept in mind that the overall population growth rate during the period remained high—declining from 3.0 percent in 1997 to 2.6 percent in 2001. The average annual growth rate from 1992 to 2000 exceeded 5 percent, meaning that real GDP grew, on average, at 8 percent—truly a remarkable record for any African country in recent decades—and was comparable to that of many of the fast-growing East Asian economies during the decade. Given the quality of the data, however, one must not attribute too much significance to year-to-year changes in the growth rate, but the evidence shows that growth was strong after 1992.[9]

Real per-capita GDP in 1995 dollars rose from $225 in 1987 to $355 in 2001, an increase of 58 percent. However, the depreciation of the exchange rate causes this growth to be understated, and the reported levels in 1995 purchasing-power–adjusted dollars (PPP) doubled from $625 in 1987 to $1,255 in 2001.[10]

[9] A detailed examination of the sectoral composition of growth and growth's apparent sources is provided in a later section.

[10] PPP adjustment attempts to account for different relative prices within the economy as well as for those prevailing in the United States, and to adjust for changes in the real exchange rate. Note from Figure 9 that a substantial real depreciation in the exchange rate occurred between 1987 and 1992. Converting Ugandan GDP in shillings to U.S. dollars at the prevailing nominal exchange rates will cause the real growth of GDP to be understated. Thus, the PPP series probably gives a better indication of the improvement in living standards that Uganda has achieved.

To track changes in living standards and poverty at the household level, the Ugandan government, funded by the World Bank, embarked upon a major household survey program in fiscal year 1992–1993 with the Integrated Household Survey (IHS). The initial IHS covered 10,000 households, establishing a baseline. This was followed by four monitoring surveys, MS-1 (1993–1994), MS-2 (1994–1995), MS-3 (1995–1996), and MS-4 (1997–1998), which covered about 5,000 households. The most recent survey in the series is another integrated survey, the Uganda National Household Survey (UNHS) of 1999–2000.[11] Thus, we have high-quality data on consumption from 1992 through 2000.

Given the weaknesses of aggregate GDP data, one can question the accuracy of the reported high growth rates. The strongest confirming data based on the household surveys are presented in Table 2. These data come from the complete IHS and UNHS surveys and also from the subset of approximately 3,000 households that can be matched and used as a panel. The point is that the data appear to be reliable and confirm annual growth of per-capita consumption for 1992 through 2000 in excess of 5 percent, which is very close to the reported growth in per-capita consumption from the national accounts.[12]

Table 2: Comparison of Nominal Consumption per Capita in Full Samples and Subsample of Panel Households

	Nominal Consumption IHS (1992–1993)	Nominal Consumption UNHS (1999–2000)	Overall Rise in Nominal Consumption	Implied Annualized Real Growth Rate
Full sample				
All	11,786	27,089	130%	5.45
Rural	9,675	21,375	121%	4.92
Urban	26,697	64,350	141%	6.10
Panel subsample				
All	10,279	23,478	128%	5.37
Rural	9,824	21,262	116%	4.64
Urban	21,315	49,941	134%	5.71
Memo item: consumer price index	243	373	53%	

Note: Consumption is per capita per month (Uganda shillings).
Source: Appleton, 2001b

Two other measures of macroeconomic performance over the period also should be examined: the rate of inflation and the real exchange rate. Figure 8 shows Uganda's annual inflation rates since 1982 (based on International Financial Statistics data, which report the

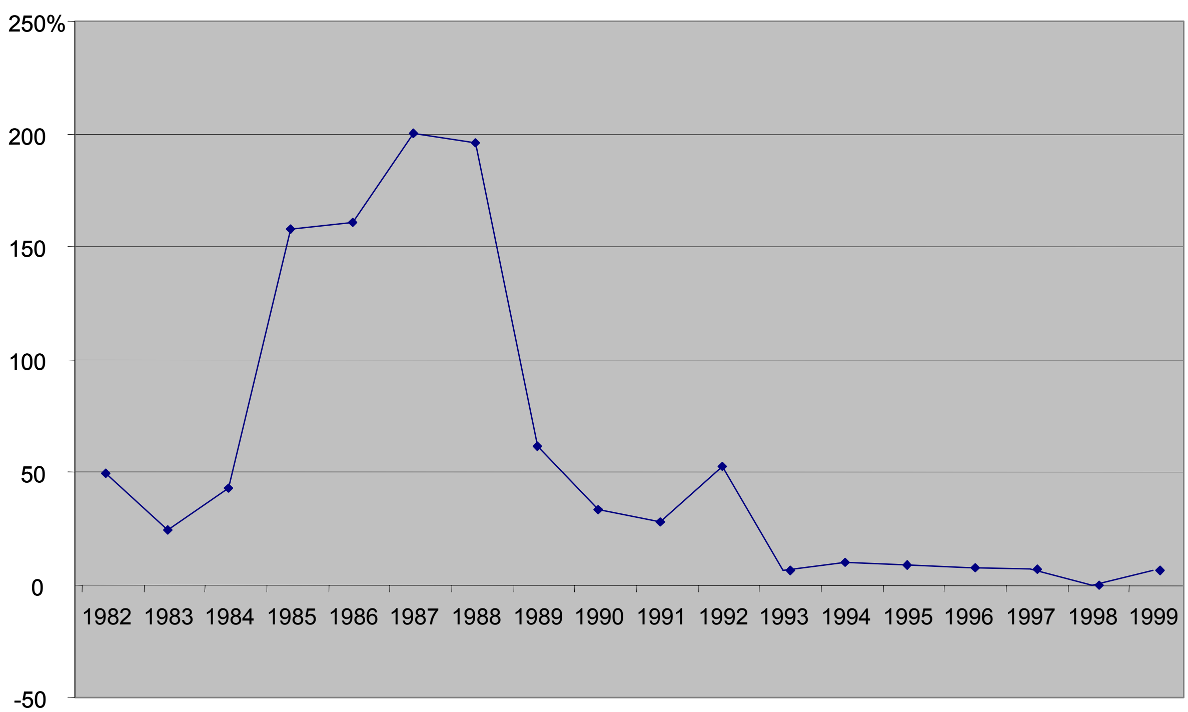
11 Appleton provides a complete description of the surveys. In his published paper (2001a), he uses the data from IHS (1992–1993) through MS-4 (1997–1998). His later, unpublished paper (2001b) fully incorporates the UNHS data. The surveys are important in that they offer excellent nationwide statistical coverage based on measured household consumption levels.

12 Appleton (2001b), in Table 1 and Figure 1, shows that although the national accounts consistently show a higher level of per-capita consumption, the growth rates over the entire period (but not year-to-year) are very close.

consumer price index only after 1981), and Figure 9 shows the real effective exchange rate since 1980.

The inflation rate was 50 percent in 1982, fell below 50 percent for a couple of years, and then sharply increased, to more than 150 percent in 1986 and 200 percent in 1987. The rate remained high in 1988, and then decreased but remained in the unsatisfactory 30-percent to 50-percent range until 1992. Since 1993, it has remained below 10 percent per year. The measured real effective exchange rate, based on official exchange rates adjusted for relative inflation rates of major trading partners, shows large depreciation from 1980 to 1984 as the second Obote government depreciated the official value of the shilling. However, these exchange rates remained much higher than the parallel exchange rate. From 1984 to 1987, appreciation occurred, as the official exchange rate failed to adjust to the rate of inflation. From 1987 to 1993, the real exchange rate depreciated sharply, but it has stabilized since 1994.

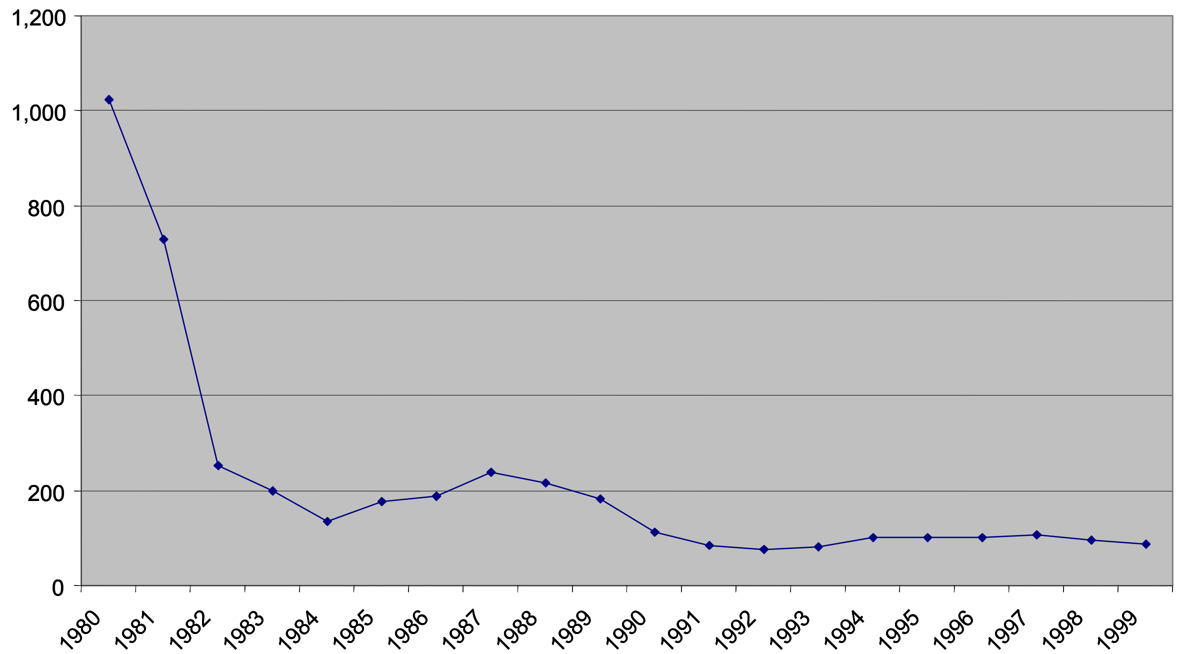
Figure 8: Annual Inflation Rate, Uganda, 1982–1999



Source: International Financial Statistics

Figure 9: Real Effective Exchange Rate, 1980–1999

(1995 = 100)



Source: International Financial Statistics

Who Has Benefited from Growth?

The short answer is "almost everyone," with clear evidence that levels of absolute poverty have fallen substantially. Fortunately, the aforementioned household surveys enable us to measure poverty levels over time, and the papers by Appleton are models of careful analysis and clear exposition. We will draw directly from them in this section.

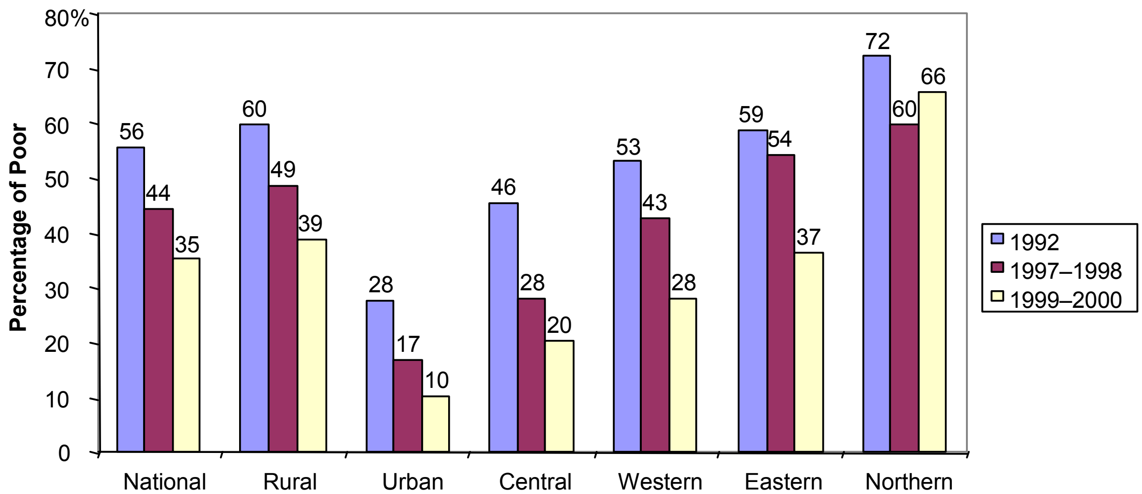
Appleton adopted the approach of Ravallion and Bidani (1994) and used an expenditure level consistent with consumption of 3,000 calories per day for a male adult as the poverty line. Adjustments are made for age and gender composition of households, and, regionally, specific prices are used for the differing urban and rural consumption baskets. Appleton also shows convincingly that the results are not sensitive to the exact choice of poverty line, but a poverty line does provide a consistent measure for changes over time.[13]

Using the adjusted data, Appleton calculated alternate measures of the incidence of poverty. The first, P0, is the simple head-count ratio; the second, P1, is the per-capita aggregate poverty gap; the third, P2, is P1 squared. Appleton also calculated alternative measures of

[13] Appleton estimates that the per-capita expenditure requirement to meet the poverty line was about $44.50 per month in 1993 using a PPP exchange rate. This is slightly above the $1-per-day poverty line used in many World Bank estimates of poverty incidence.

inequality, including the Gini coefficient. The head-count measures (P0) are plotted in Figure 10; Table 3 presents the national data from each of the surveys.

Figure 10: Poverty Head Count in Uganda, 1992–2000



Source: Appleton, 2001b, Figure 3

Table 3: Poverty and Inequality Indicators for Uganda, 1992–2000

	P0	P1	P2	Gini
National				
IHS (1992)	55.7	20.3	9.90	0.364
MS-1 (1993–1994)	51.2	16.9	7.48	0.354
MS-2 (1994–1995)	50.2	16.3	7.25	0.365
MS-3 (1995–1996)	49.1	16.4	7.64	0.366
MS-4 (1997–1998)	44.4	13.7	5.91	0.347
UNHS (1999–2000)	35.2	10.5	4.50	0.384
Rural				
IHS (1992)	59.7	22.0	10.81	0.326
MS-1 (1993–1994)	55.6	18.6	8.27	0.291
MS-2 (1994–1995)	54.3	17.7	7.90	0.321
MS-3 (1995–1996)	53.7	18.1	8.49	0.326
MS-4 (1997–1998)	48.7	15.2	6.56	0.311
UNHS (1999–2000)	39.1	11.8	5.09	0.322
Urban				
IHS (1992)	27.8	8.3	3.48	0.395
MS-1 (1993–1994)	21.0	5.5	2.02	0.394
MS-2 (1994–1995)	21.5	6.3	2.69	0.398
MS-3 (1995–1996)	19.8	5.6	2.23	0.375
MS-4 (1997–1998)	16.7	4.3	1.65	0.347
UNHS (1999–2000)	10.3	2.2	0.72	0.406

Notes: All calculations exclude four districts (Bundibugyo, Gulu, Kasese, and Kitgum) that were not surveyed in some years due to insecurity.
Source: Appleton, 2001b

Looking at Figure 10, it is evident that poverty rates fell dramatically over these eight years. Although we have no comparable poverty measures for the previous years, it is likely that rates were higher in the mid-1980s, when civil war raged and Uganda's economy was in severe crisis. The data also make clear, however, that inflation was stabilized and growth accelerated after 1992, so that starting at that date gives a reasonable explanation of post-stabilization poverty reduction.

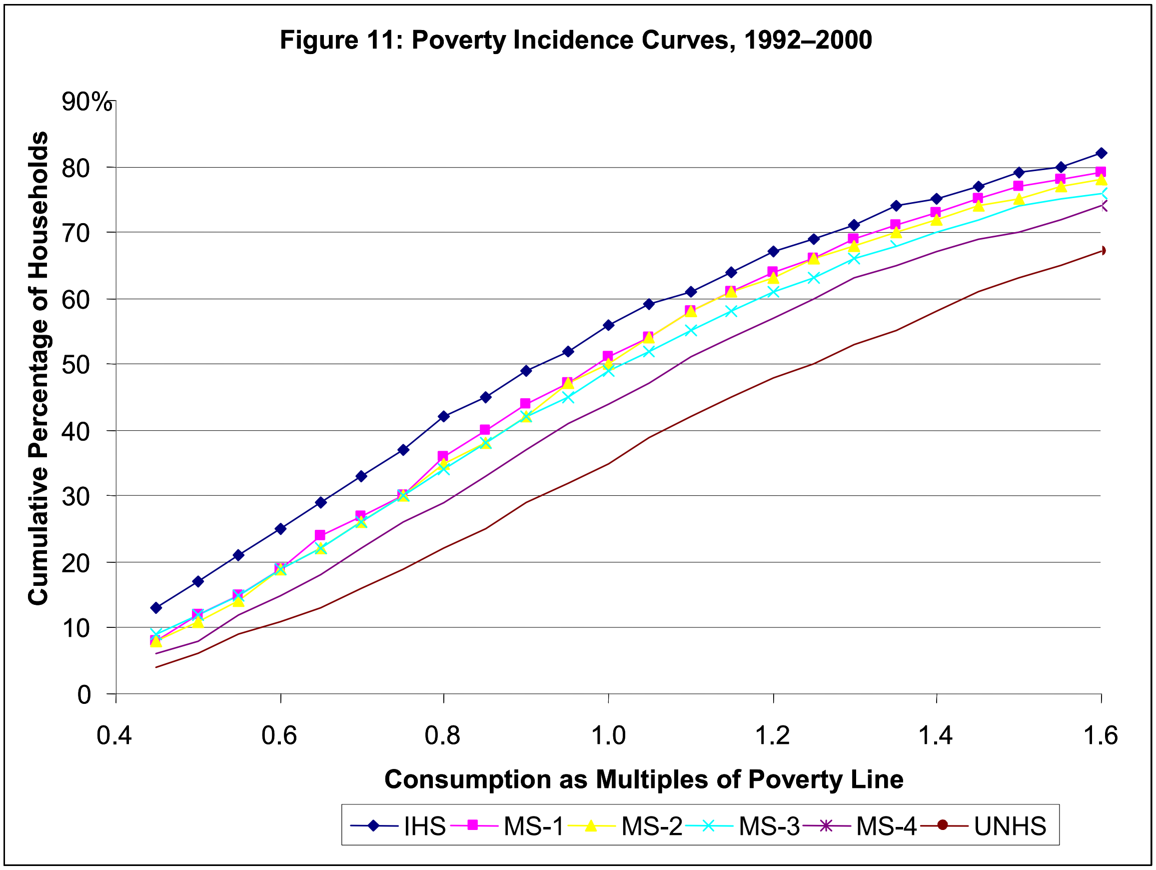
Figure 10 provides poverty data broken down nationally, by urban and rural sectors, and by region. The decline in poverty rates is substantial in both rural and urban sectors, and in all regions from 1992 to 1998. From 1997 to 2000, poverty continued to decline sharply in the country as a whole and in all regions, with the exception of the North, which was beset by renewed violence. Table 3 shows that the national declines in poverty were monotonic between all periods in both rural and urban areas, suggesting that improvement has been a continuous process. The series for P1 and P2 show that the poverty gap measures also showed continuous improvement.

The Gini coefficients were basically stable over time, with inequality falling slightly in rural areas and increasing slightly in urban areas, although the national coefficient increased somewhat because of a modest increase in the share of population in urban areas, from 12.4 percent to 13.5 percent, which have a higher average consumption level.[14] Overall, it is clear that the reduction in poverty stemmed overwhelmingly from growth, not from redistribution.

Figure 11 demonstrates that the conclusion that poverty has been reduced substantially is insensitive to the choice of poverty line. Real consumption levels have increased at all points in the income distribution, suggesting again that improvements have been widespread.

Appleton has also been able to show poverty incidence among occupational sectors. From the surveys, each household has been classified by the reported principal occupation of its head. Most rural households are not specialized. They generally grow a substantial proportion of the staple foods they consume and supplement their subsistence production with some activities from earning cash. If the household reports any participation in coffee, cotton, or tea production, the household is classified as "cash crops," so that those classified as "food crops" exclude food producers with small amounts of commercial crops. Table 4 displays information on poverty incidence among sectors for 1992 (IHS), 1995–1996 (MS-3), and 1999–2000 (UNHS).

[14] Appleton (2001b) argues that in 1992, 16 percent of national inequality was attributable to the rural–urban gap, while in 1999–2000, 24 percent of national inequality was attributable to the rural–urban gap. From 1992 to 2000, real consumption per adult equivalent grew in rural areas by 3.7 percent and in urban areas by 5.7 percent annually (measured at the median).



Source: Appleton, 2001b, Figure 4

Table 4: Sectoral Poverty Levels

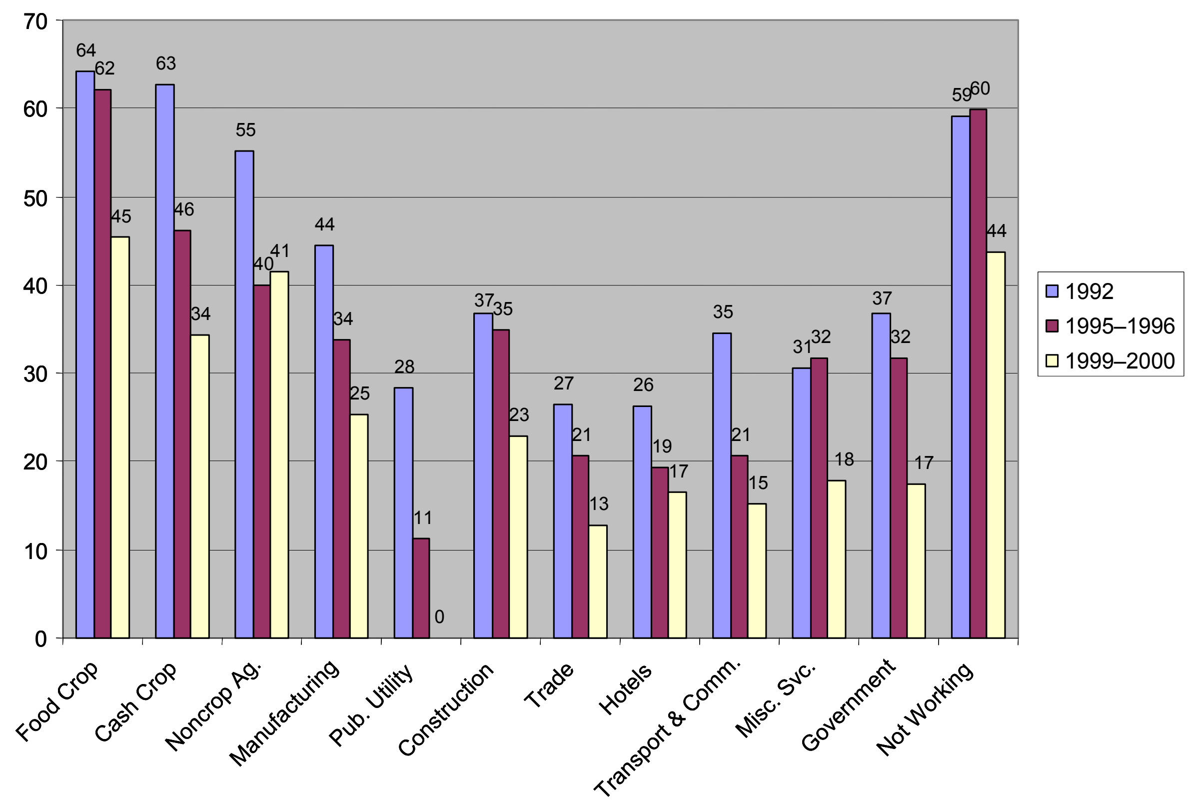
	1992		1995–1996	1999–2000
	Pop. share	P0	P0	P0
National	100.0	55.7	49.1	35.2
Food crop	47.4	64.1	62.1	45.4
Cash crop	19.2	62.6	46.1	34.3
Noncrop agriculture	3.0	55.1	40.0	41.4
Mining	0.1	31.5	74.5	43.2
Manufacturing	4.0	44.4	33.7	25.3
Public utilities	0.1	28.3	11.3	0
Construction	1.4	36.8	35.0	22.9
Trade	7.4	26.5	20.7	12.8
Hotels	0.6	26.2	19.3	16.5
Transport/communications	1.7	34.5	20.6	15.2
Miscellaneous services	1.9	30.5	31.7	17.8
Government services	8.0	36.8	31.8	17.4
Not working	5.3	59.1	59.8	43.7

Note: People are assigned to sectors based on the main industry in which the head of their household works.
Source: Extracted from Appleton, 2001b, Table 9, and the author's computations from Uganda Bureau of Statistics data

The first column gives the population distribution across sectors. The extraordinary concentration of Ugandans in agriculture is evident—almost 70 percent of the population is reported in the three agricultural subsectors. The small shares in manufacturing (4 percent), construction (1.4 percent), and government services (8 percent) are consistent with the pattern of decline of the formal sectors that was described earlier.[15]

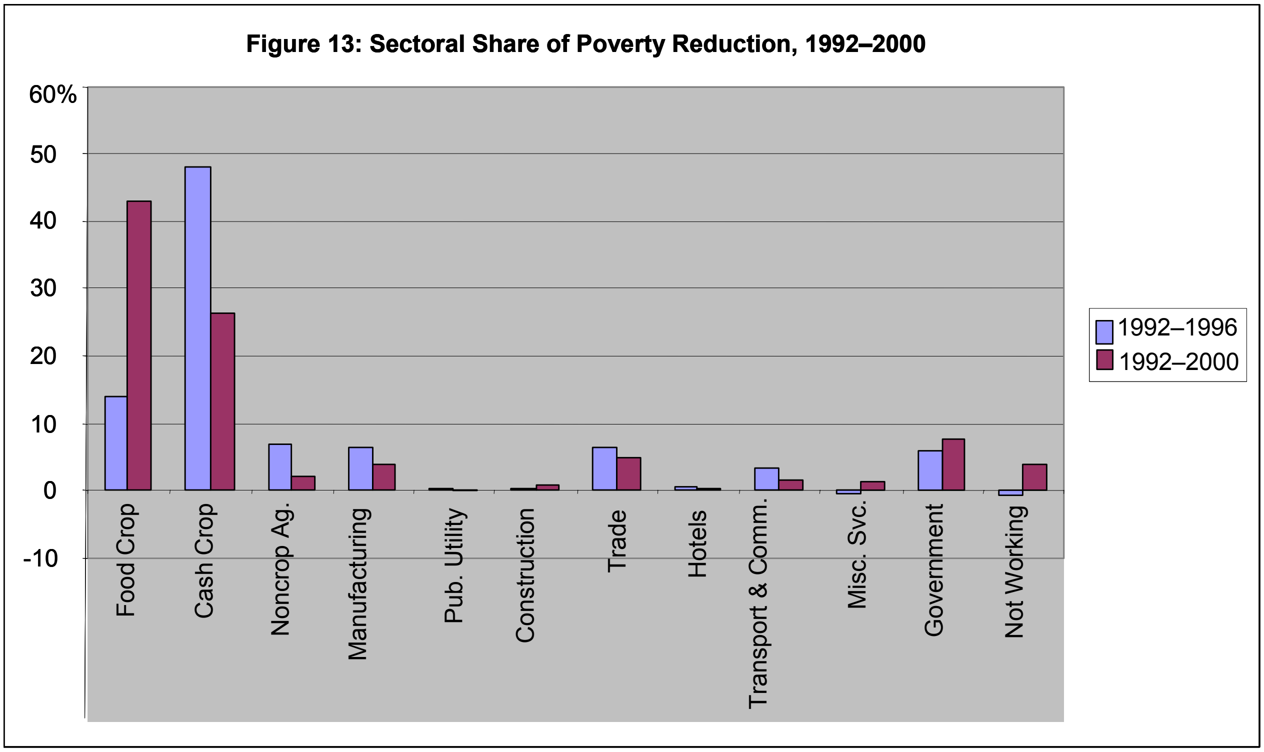
Figure 12 plots these sectoral poverty rates for the three time periods shown. Looking at the 1992 rates, it is clear that the three agricultural sectors had the highest rates of poverty. The most dramatic decline from 1992 to 1996 occurred in cash crops, in which the rate fell from 63 to 46, while the food crop sector experienced a much smaller decline, from 64 to 62. Given the large population shares in these sectors, it is intuitively clear that a large part of overall poverty reduction took place in the cash-crop sector.

Figure 12: Poverty Head Count by Sector, 1992–2000



Source: Appleton, 2001b

[15] Presumably, the surveys have population shares by sector for each round. Appleton, however, reports the distribution for only the 1992 baseline surveys. We know that the urban share of population rose from 11.7 percent in 1992 to 14.2 percent in 2000, according to World Development Indicators data, so there must be structural shifts taking place in economic activity. According to Appleton, however, relatively little of the reduction in poverty is attributable to sectoral shifts.



Source: Appleton, 2001b, Table 9

Appleton has done a statistical decomposition of the contribution to the total reduction in the poverty count by each sector. Those numbers are plotted in Figure 13. Overall, more than 91 percent of the decline in poverty between 1992 and 1996 was accounted for by intrasectoral poverty reduction and less than 6 percent from movement of persons from higher to lower poverty sectors. The total contribution of the cash-crop sector to the total for this period was 48 percent, while the food crop sector contributed 14 percent, and noncrop agriculture and manufacturing each contributed 6 to 7 percent.

In contrast, decomposing the poverty reduction over the entire 1992–2000 period, almost 96 percent of the reduction is accounted for by intrasectoral changes, suggesting that intersectoral mobility has had little impact. For the entire period, 43 percent of the overall reduction arises from the food crop sector and 26.5 percent from cash crops. Government services (7.6 percent), construction (1.0 percent), trade (4.9 percent), and manufacturing (3.7 percent) are the other sectors with significant contributions. The most striking feature is the large contribution of cash crops to poverty reduction in the early part of the decade and the large improvement in the food crop sector in later years.

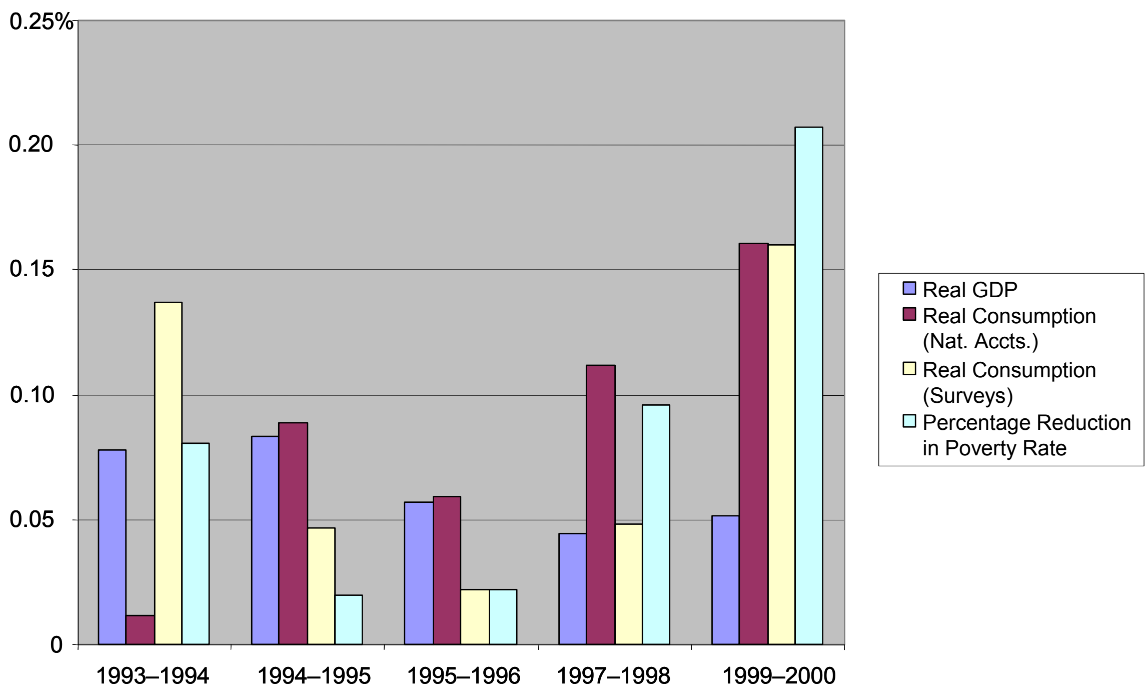
To what extent does the reduction in poverty simply mirror aggregate rates of economic growth in the economy? Table 5 and Figure 14 may provide some answers.

Table 5: Real GDP, Consumption, and Poverty Measures

Year	Per-Capita GDP	Per-Capita Consumption (Nat. Accts.)	Per-Capita Consumption (Surveys)	Poverty Head-Count Proportion
1991–1992	256	6,204	4,933	55.7
1993–1994	276	6,275	5,610	51.2
1994–1995	299	6,834	5,871	50.2
1995–1996	316	7,238	5,999	49.1
1997–1998	330	8,047	6,289	44.4
1999–2000	347	9,338	7,295	35.2

Note: Real measures are in 1989 Ugandan shillings.
Sources: Per-capita GDP from World Development Indicators, using 1992 measures for the 1991–1992 fiscal year; other measures from Appleton, 2001b, Tables 1 and 7

Figure 14: Growth and Poverty Reduction: Percentage Change from Previous Period



Sources: Per-capita GDP from World Development Indicators, using 1992 measures for the 1991–1992 fiscal year; other measures from Appleton, 2001b, Tables 1 and 7

It is important to note that the period intervals in Table 5 vary and that GDP is reported on a calendar year in the World Development Indicators*,* while the other data are for fiscal years. It is evident that GDP and consumption have trended upward, while the poverty rate has declined monotonically. Figure 14 presents a representation of the period-to-period percentage changes in these series (declines in poverty are given a positive sign). The first three periods occur at one-year intervals, while the latter two occur at two-year intervals, which means the rates of improvement in the latter period appear to be overstated. Note that the year-to-year changes in real consumption between the national accounts and the surveys do not track exactly, but the overall growth is very close. In general, the surveys are the more accurate measure, because the national-accounts estimates are based on several residual calculations. The poverty rate reduction was highest in the first and last intervals, and the growth of consumption measured by the surveys was also highest in those periods. Annual growth of GDP was decidedly lower in the later years. The overall correlation between these variables is strong, but one must try not to read too much into the period-to-period changes.

How Did Policy Measures Affect Growth and Poverty Reduction?

We have established that between 1971, when Idi Amin took power, through 1986, when Museveni's guerrilla revolution was successful, Uganda suffered. The country lost some 40 percent of real per-capita GDP, and people moved away from the formal sectors to largely subsistence-based activities to avoid violence and predation. Since 1987, there has been first a halt of the decline, then macroeconomic stabilization, followed by high rates of aggregate growth since 1992. Aggregate growth has generated widely distributed benefits, and the proportion of the population in absolute poverty has fallen substantially.

Our task is to identify the forces that caused stabilization and growth to occur and to examine the channels through which growth has caused poverty reduction. While many of the factors may have been exogenous, and luck played a part, there is reason to believe that specific policies adopted and implemented by the Museveni regime contributed to this outcome.

We mentioned earlier that upon taking power, the new regime faced a number of specific challenges. Most pressing was restoring order and maintaining security. "The government quickly established the preconditions for reconstruction activities by promoting an attitude of reconciliation and by not using their victory for retaliation [in sharp contrast to the pattern of action by "winners" in the previous two years]. Soldiers were well disciplined, the courts were not used to oppress opponents; instead, the government tried to draw the opposition into government." (Kreimer et al., 2000, pp. 58–59.) Soldiers from the preexisting Uganda army were integrated into the new force, and demobilization was delayed until late 1992 because of fear of actions by demobilized soldiers. It is hard to assess the effect of demobilization—subsequently, there was an increase in internal armed conflicts as well as major conflicts in neighboring Sudan, Congo, and Rwanda. The role of demobilized Ugandan soldiers in these actions is unknown. Nevertheless, the basic task of restoring security has been accomplished quite well.

On the economic front, the intertwined problems of dealing with inflation and the exchange rate became central concerns over the years. The National Resistance Movement was well aware of the problem of the exchange rate yet was far from convinced that allowing the rate to float was a good idea. The fact was that trying to manage an official exchange rate in the face of inflation led to continuing appreciation, placed an extra implicit tax on coffee producers and other exporters, drove activities into parallel markets, and was the biggest single source of "rents" in the economy. At the same time, allowing the exchange rate to float appeared to increase inflationary pressures through increased costs of imports. Various halfway measures were initiated during the first years of the new regime.

> An agreement with the IMF and the World Bank in 1987 on a package of reforms included a currency reform and a large nominal devaluation of the exchange rate. Although the decision to seek donor assistance was made with the support of President Museveni, the debate over the exchange rate continued for another three years. In addition, little consensus was reached regarding the importance of price stability, or how to achieve it. Inflation remained high, fueled by credit to the government to finance loose control of the budget and by rapid growth in credit to the monopoly marketing boards, mainly the Coffee Marketing Board, to finance the purchase of export crops. The official exchange rate was occasionally devalued to recover the ground lost to inflation. However, no consistent direction on macroeconomic strategy was established until early 1990. (Henstridge and Kasekende, 2001, p. 51.)

A government seminar in 1989 brought together academics, politicians, and officials to take a critical look at policies and to discuss reform. Following this, the Presidential Economic Council provided a forum for debate between ministers holding economic portfolios and a group of extremely able "technocrats" in the Ministry of Planning and Economic Development. A statement of strategy (Republic of Uganda, 1992) was later published recommending prudent budgeting to control inflation, promotion of exports through legalization of the parallel market, and devaluation of the official exchange rate to a competitive level. The parallel market was legalized in 1990, and a weekly auction of official foreign exchange began in early 1992. The parallel premium narrowed but continued to exist through most of 1993, until an interbank market was created. By November of that year, the exchange rate was unified and was allowed to float.

Surprisingly, the problem of exchange management in 1994 was how to deal with the real appreciation arising from a sudden boom in world coffee prices resulting from a Brazilian frost, in addition to increasing levels of repatriated capital as Asians were welcomed back to the country. Government policy was that it would not intervene to support any particular rate but would intervene only to maintain orderly market conditions. The approach worked, and the overall performance of the exchange market has been good enough to have allowed the market to operate freely up through the present time.

Another critical element in improving the economy in the 1990s was implementation of tight budget control. In response to a peak of inflationary pressure in early 1992, the Ministries of Finance and Planning and Economic Development were merged, placing budgetary and monetary control firmly in the hands of experienced "technocrats."[16]

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[16] Henstridge and Kasekende (2001) have an excellent, detailed account of these macroeconomic reforms and implementation. Chapter 5 of Bigsten and Kayizzi-Mugerwa (1999) is also quite useful.

Table 6: Inflation, Investment, and Growth before and after the Achievement of Stability

Category	Average, 1986–1987 to 1991–1992	Average, 1992–1993 to 1996–1997
Domestic government financing (percentage of GDP)	1.2%	-1.4%
Change in Bank of Uganda net credit to government (percentage of beginning-of-period money stock)	16.5%	-15.0%
Growth in average level of M2 (percentage per year)	105.5%	28.6%
Average end-period inflation (percentage per year)	107.6%	6.6%
Private investment (percentage of constant price GDP)	6.6%	9.6%
Growth in total GDP (percentage per year)	6.6%	9.6%
Growth in monetary GDP (percentage per year)	6.7%	9.3%
Money, M2 (percentage of GDP)	6.3%	9.4%

Source: Henstridge and Kasekende, 2001, Table 3.1

The standard lessons of macroeconomic management, central to virtually all structural-adjustment programs, were accepted by the Ugandan leadership, were implemented, and worked, as Table 6 reflects. Adoption of a realistic exchange rate substantially increased incentives for producers of internationally traded goods, removed a burdensome implicit tax, and removed a major source of politically directed rents. A part of the openness policy included an action in 1992 inviting Asians who had been dispossessed by Idi Amin to return and reclaim their assets. As these policies became credible, private capital held by Ugandans outside the economy began to come back, as shown in Table 7. Nevertheless, Collier and Reinikka (2001a) estimated that 60 percent of Ugandan private wealth was held outside the country in 1986 and that that figure had increased to 67 percent by 1991. Since then, about 17 percent of private wealth has been repatriated, but in 1997, some 50 percent still remained outside. This provides enormous potential for continuing inflows as confidence is maintained. To put this in perspective, 1997 total official development assistance flows were $536 million, while private repatriation was $311 million and foreign direct investment was only $0.77 million. With macroeconomic stability, the movement from market-based activities into subsistence started to reverse, with increasing incomes resulting from more productive resource allocations in the small-scale private sector.

Table 7: Capital Flight and Repatriation, 1991–1997

Year	Capital (in US$ Millions)
1991	-17.3
1992	-15.0
1993	+16.8
1994	+160.3
1995	+59.0
1996	+108.9
1997	+311.2

Note: - indicates capital flight; + indicates repatriation.
Source: Collier and Reinikka, 2001a, Table 2.4

Another major economic policy at this time was the liberalizing of the crop marketing system. A system of official monopsony marketing boards had been established in colonial times, ostensibly to protect peasants from fluctuations in world prices. These boards, however, turned into instruments of implicit peasant taxation. When prices were high, the boards accumulated surpluses and expanded staffs enormously. When prices fell, they reduced the price to producers in order to continue to finance their bloated costs. These were hotbeds of patronage and waste. Beneath the national marketing boards, a system of cooperatives was formed and given monopsony power to buy crops directly from peasants. Although the cooperatives were ostensibly membership institutions, they were also sources of patronage and high costs and became another layer of implicit taxation. These institutions had been created in part to protect peasant producers from Asian merchants and crop buyers, but, in fact, they further “squeezed” the peasants.[17]

Aside from the officials who benefited directly from the rents that were extracted from the controlled marketing system, few Ugandans viewed market liberalization favorably. Although many realized that Amin’s expulsion of the Asians had proved to be costly, there was still widespread distrust of private traders. The prevailing view among educated Ugandans was that if traders were free to buy crops, any increase in world prices would merely be held as higher margins for the traders and that little benefit would be passed on to peasants. The thinking was that traders had local monopoly/monopsony power that they would exercise. Furthermore, skepticism arose from the belief that even if prices were passed on, peasants had little capacity or ability to respond.

The World Bank made crop marketing reform conditions for maintaining several lending programs. The technocrats in the Ministry of Finance, Planning, and Economic Development believed in the policy and persuaded the president to approve the reforms. Spang (2003) provides a fascinating account of the politics of the policies and the barriers to implementation of laws and decrees. In general, liberalization moved fairly quickly in the coffee sector, while interests in the Ministry of Cooperatives and the Ministry of Agriculture managed to delay implementation of the reforms in the cotton marketing system for three years. Spang concludes that the technocrats, backed by international donors, were able to prevail largely because the beneficiaries of the existing system were discredited hangers-on from the old regime.

Spang (2003) states, “Today around 40 companies are competing to buy and export Ugandan coffee. As they bid for harvests, they have driven up farm-gate prices. Whereas coffee producers earned just 23 percent of the world price for their coffee in 1990, they earned 43 percent in 1991. They currently take home around 85 percent.” Figure 15 tracks the farm-gate (producer) prices paid to Ugandan farmers, with world prices based on International Coffee Organization data, since 1983. Figure 16 displays the ratio of producer prices to world prices, also since 1983. Two things stand out from these figures. First, the close tracking between the previous year’s world price and the current price paid to Ugandan farmers is

[17] Spang (2003) offers an excellent discussion of the politics of the cooperatives and marketing boards and the relationships between the boards and the line ministries, including the Ministries of Cooperatives, Agriculture, and Trade. Henstridge and Kasekende (2001) also provide a useful discussion of marketing liberalization and reform.

evident. Second, of greatest significance is the enormous increase in the share of world prices being paid to farmers. We cannot break down the increases into the two main components—(1) the depreciation of the exchange rate and the elimination of coffee revenues being paid at an overvalued official exchange rate, and (2) the increased competition between traders, with the resulting benefits passed on to farmers. The combined effects are quite stunning.

Figure 17 shows the relationship between measured production and exports of coffee and the producer price. The sharp increase in production and exports during and following the high prices of 1994 and 1995 is evident.[18] Farmers can respond in the short run to incentives to produce coffee by pruning and fertilizing trees while picking berries more carefully. In the longer run, replanting is the desired solution, particularly because of older trees losing productivity and the existence of disease. Perhaps that explains why production levels remained relatively high after prices fell drastically after 1988.

The evidence seems quite clear: Between 1993 and 1997, coffee farmers received dramatically higher prices and responded by increasing their production. The result was higher income and consumption. Because coffee is grown by a large number of small producers, many of whom were below the poverty line in 1992, they benefited from these developments, and poverty was reduced dramatically in the cash-crop sector. After 1996, prices fell, but output remained relatively high, in part because of permanent improvements made during the "boom"; the decline in poverty rates, however, was much less.[19]

Larson and Deininger (2001) report estimates from surveys in 1993–1994 and 1995–1996 that let them measure the degree to which observed market prices for many crops track prices in district centers. They conclude that, "Average spreads have fallen with all other things being equal. In fact, the regression results imply that the spread between the two surveys fell by approximately 32 percent, suggesting that opportunity for trade increased for most communities." They go on to argue that, "In rural communities where most households are largely self-sufficient in food, there is scant and inconsistent demand for local food crops. When transportation costs are high and the information supply is low, households cannot depend on markets for food crops to generate income."

[18] Spang (2003) points out the difficulty of assessing the impact of higher prices on output because substantial amounts of coffee are smuggled into Uganda from neighboring countries, given the favorable marketing conditions in Uganda. The increased incomes and reduced poverty rates among Ugandan cash-crop farmers during this period, however, suggest that a substantial part of the quantity response is real.

[19] Larson and Deininger (2001) suggest there may be a degree of consumption-smoothing at play here, so that the effects of the coffee boom on consumption were long-lived. Also, some of the coffee "windfall" was used for farm improvements that affected income from other crops, as few farms are fully specialized in cash-crop production.

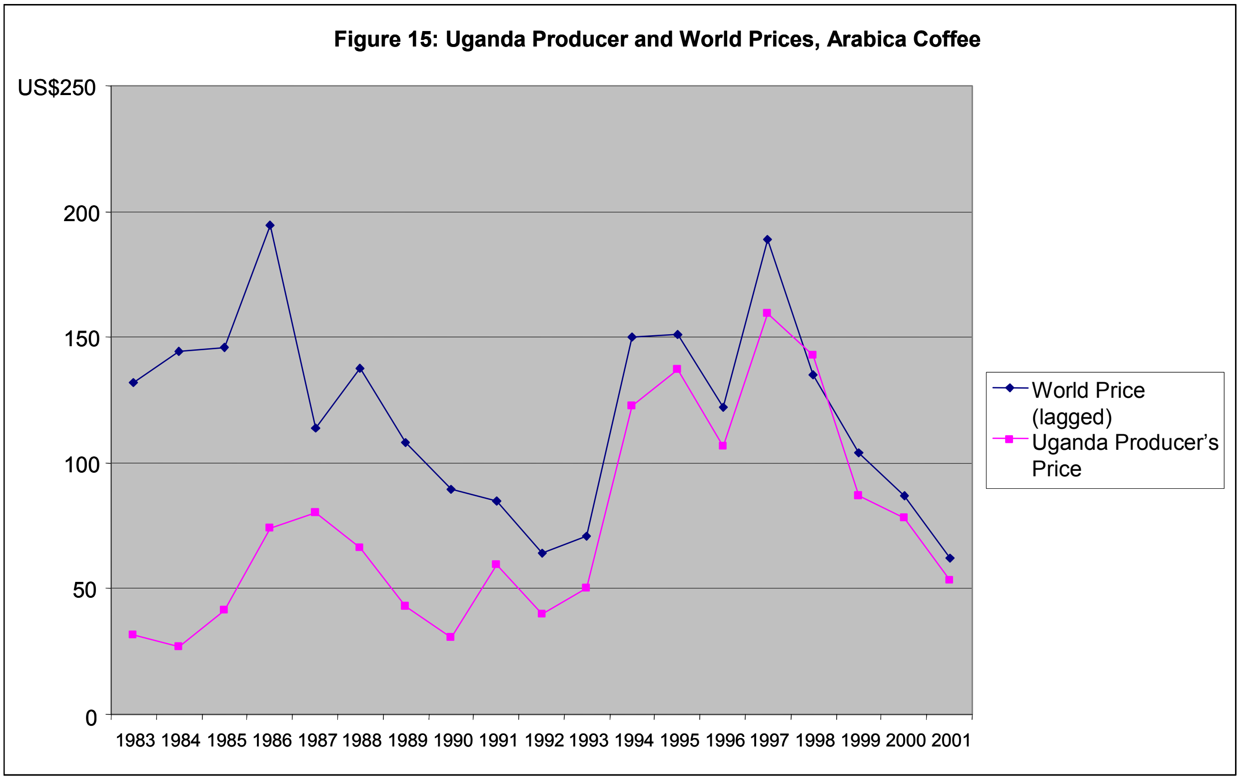


Figure 15: Uganda Producer and World Prices, Arabica Coffee
US$250
200
150
100
50
0
1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001
World Price (lagged)
Uganda Producer's Price

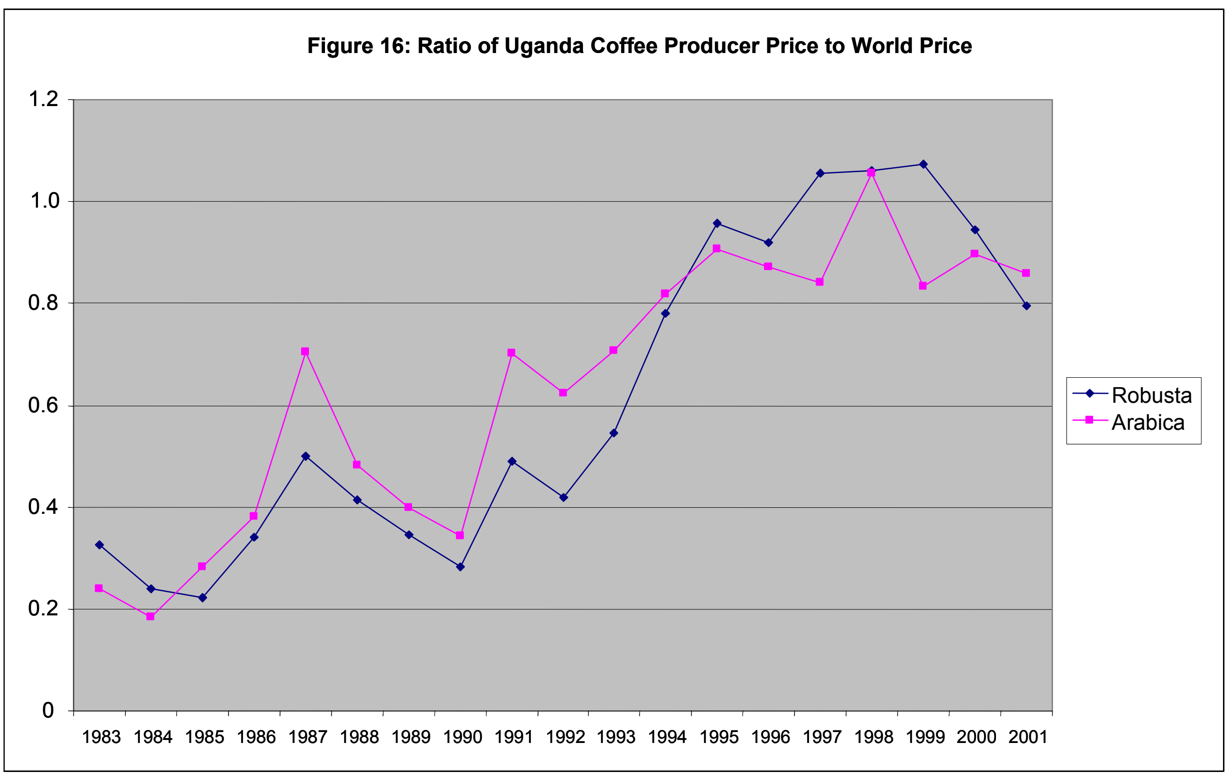
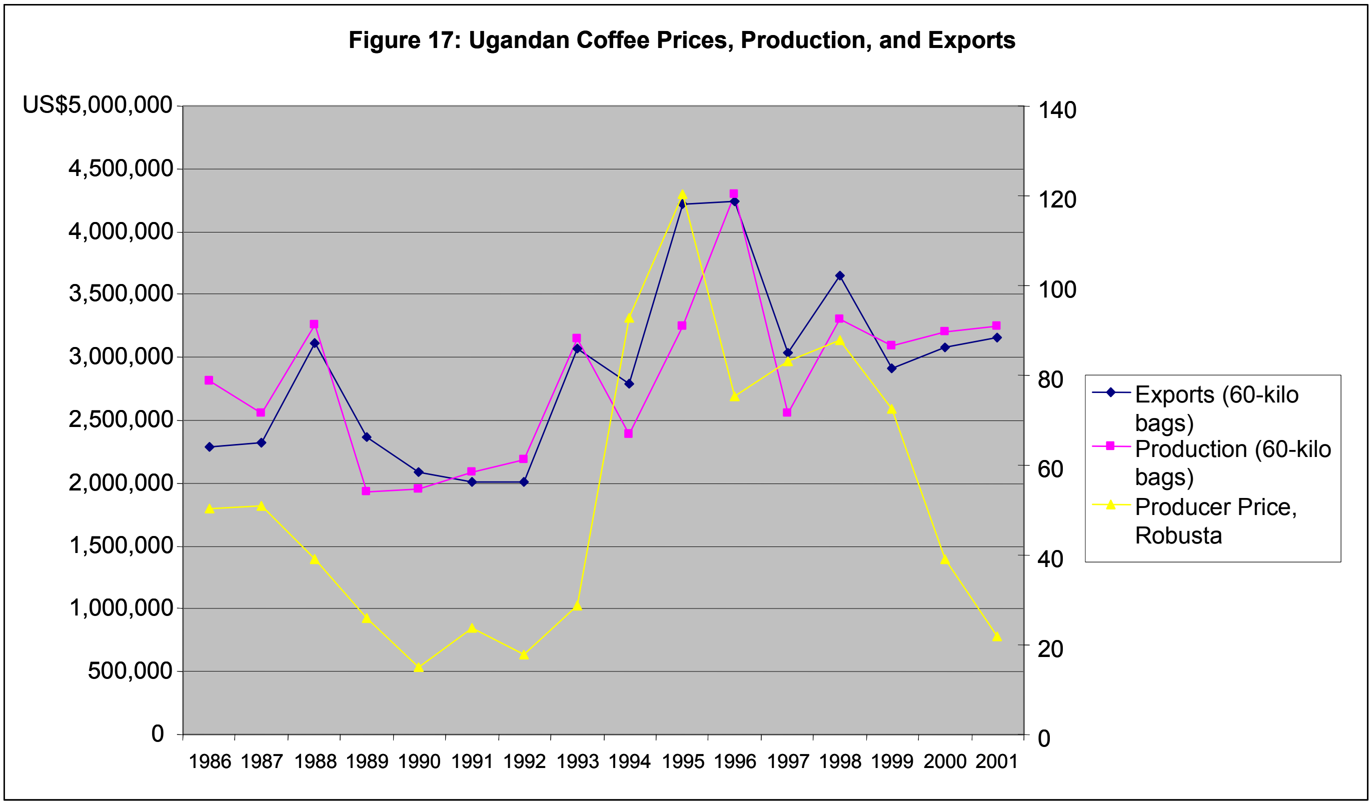


Figure 16: Ratio of Uganda Coffee Producer Price to World Price
1.2
1.0
0.8
0.6
0.4
0.2
0
1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001
Robusta
Arabica



These policies, rather than any specific poverty-targeted policies, seem sufficient to explain the sharp reductions in poverty documented above. Recall that the measures we have are based on consumption, so measurement problems of marketed production are avoided. We are measuring the effects on household consumption levels, rather than on the more-difficult-to-establish levels of income.

The large decreases in poverty between 1992 and 1995–1996 are primarily attributable to reduced poverty among households engaged in cash-crop production. (There was a coffee boom in 1994–1996, with world prices, as noted above, falling precipitously thereafter.) We can identify the depreciated effective exchange rate and competition by private traders as the channels through which cash-crop farmers received higher prices and income. In that period, there were very modest declines in poverty levels among food-crop farmers. From 1995–1996 to 1999–2000, however, the poverty rates declined much less among cash-crop farmers, whereas a big improvement occurred among food-crop farmers. If Larson and Deininger's findings are correct, markets for food were becoming more integrated; hence, growing urban demands for food may have been generating new production and marketing opportunities for peasants. This is also consistent with the observation that poverty rates have fallen much more in the Central and West regions, where the major cities are located and there is better transportation infrastructure.

It is important to note the very special structural characteristics of Uganda that may have allowed macroeconomic stabilization and market reform to have such a strong effect in reducing poverty. The country is overwhelmingly agricultural and organized in smallholdings. Most farms are not specialized and grow food for their own use as well as for marketed surplus when there are opportunities to sell. Livestock are also an important asset and cash-earning activity. According to Larson and Deininger, 77 percent of Ugandans are farmers and 94 percent of all rural households engage in farming. However, agriculture generates just less than 60 percent of household income, because people engage in other income-generating activities and many receive remittances. Farms are mostly family-operated, and only 17 percent of households hire labor at any time.

For the most part, households have access to their own land, much of which is under traditional tenure (partly communal). As a result, tenancy and sharecropping are not important features of rural society, and labor markets are of minor importance. According to surveys reported by Deininger and Okidi (2001, pp. 164–165), in 1992, 7.1 percent of agricultural households rented in land and 3.8 percent rented out land. However, with growth and increasing commercial opportunities, in 1999, 24 percent of households rented in land and 10.1 percent rented out land. It is clear that a market for land rental is developing. We have no direct evidence of the importance of this finding for poverty reduction, but a plausible argument can be made that with improved opportunities to market output, poor families may be enabled to rent additional land to utilize their household labor more fully.[20] These surveys also report increased prevalence of land conflicts, particularly in the West.

Deininger and Okidi (2001, p. 169) also report a regression on determinants of household-level income growth from 1992 to 1999. For 1992, they find significant positive effects for level of education of the head of household, family size, and assets; significant negative effects for age and level of income; and negative but not significant effects for female heads of household and widowhood. Several community variables are also included in the regression, and the only significant and positive coefficient is associated with being within 10 kilometers of a bank.

These findings on initial conditions are somewhat similar to those of Datt and Ravallion (2002), who found that growth has a much greater impact on poverty reduction in Indian states when there are high levels of female education and health status and low levels of landlessness. The point is that the poor are more easily raised from poverty if they have access to resources and human capital, which undoubtedly affects the ability of peasants to respond to incentives.

PROSPECTS AND REQUIREMENTS FOR CONTINUING POVERTY REDUCTION

One might argue that Uganda has made great progress in reducing absolute poverty but that "easy gains" have been made. Macroeconomic stabilization and trade liberalization have had

[20] A word of caution may be in order. Another reason for increased levels of land rental is the impact of HIV/AIDS, causing afflicted people to be too debilitated to work their land, forcing them to rent it out. At the same time, orphans and widows may not receive rights to their land when their family heads die, forcing them to rent land to survive. At this point, only vague anecdotes are available about such land rentals, and they indicate both possibilities. Further surveys are needed to identify the nature of the emerging land markets.

strong effects. Reducing poverty levels from 55 percent to 35 percent is a great achievement, but poverty rates of 35 percent are still unacceptably high. What are the prospects for further steady reduction? The Government of Uganda has faced this question directly and, in response, has promulgated the Poverty Eradication Action Plan. This plan was put into place in 1997, and a regular series of remarkably frank monitoring reports is being issued to measure progress. *Background to the Budget: Financial Year 2001/2002* (Republic of Uganda, 2001a) notes that, "The main objective of Government is to eradicate poverty. The Poverty Eradication Action Plan (PEAP) is therefore the central planning tool of Government."

The PEAP has four major pillars:

- Sustaining economic growth and structural transformation;
- Ensuring good governance and security;
- Increasing the ability of the poor to raise their incomes; and
- Improving the quality of life of the poor.

The first pillar entails continued growth with low inflation. The target for real GDP growth is 7 percent per annum, which would yield per-capita growth of 4.4 percent. (The data used for monitoring poverty are the household surveys with Appleton's analysis relied on in this paper.) "For the country to achieve the objective of reducing poverty to less than 10 percent by 2017, GDP growth has to be sustained at a growth rate of 7 percent and above." (Republic of Uganda, 2001a, p. 15.) In reality, GDP growth rates were 4.2 percent in 1999–2000, 4.8 percent in 2000–2001, and 5.0 percent in 2001–2002, with inflation rates of less than 5 percent. The relative slowdown is attributed in part to unfavorable movements in trade (declines in coffee and cotton prices), poor weather in 2000–2001, and a slowdown in the services sector, particularly in relation to tourism. In response, the government has designed the Medium Term Competitiveness Strategy for the Private Sector (MTCS) and the ambitious Plan for Modernization of Agriculture, both of which aim to increase the efficiency of public and private investments.

Diversification of exports is another target for growth, and considerable progress has been made in expanding production for export in livestock, fish, horticulture, and Irish potatoes in addition to the traditional crops of coffee and cotton. Horticultural exports including flowers, fruits, and vegetables increased from $10.7 million in 1995 to $29.47 million in 2001 (Republic of Uganda, 2001b). Regular air freight services from Kampala to Amsterdam are important, and the industry appears to be quite well-organized. These labor-intensive products have considerable potential for further expansion. A reasonable strategy appears to be in place to expand this sector further.

The underlying strategy for pillar one is to achieve appropriate macroeconomic conditions by maintaining an appropriate exchange rate by allowing the rate to float; to limit inflation through budgetary discipline and limited monetization of deficits; to provide incentives for increasing levels of private investment through repatriation of capital and direct foreign investment; and to increase private savings levels mediated through an effective domestic financial system.

Increases in productivity will be facilitated by the efficient use of public investment in infrastructure and by the development and dissemination of appropriate technology, particularly in the rural economy.

The importance of the second pillar, good governance and security, is evident; indeed, governance and security are the focus of many of the concerns expressed by the poor as elicited through the Participatory Poverty Assessment report. The continuing problems of corruption are severe. “The people perceive the lack of strong local leadership, mistrust of government officials and government policies due to lack of information, and the absence of regular consultations to be impediments to poverty eradication. … People believe insecurity whether at household level, especially wife battering, or at the community level related to either unduly punished thefts, insurgency, cattle rustling or war, contributes substantially to their poverty. … Generally people welcomed the increased security in the country since 1986; however, in these areas still affected by insecurity the need for peace and stability is a major concern.” (Republic of Uganda, 2000a, p. xiv.)

Uganda has instituted a system with considerable political decentralization within an overall “no-party” system. Museveni has long argued that multiparty politics would be destabilizing, as they were in the first Obote government. However, quite free, contested elections have been held regularly at the district level, and members of Parliament are elected in contested local elections. Additionally, presidential elections have been “controlled.” Under the constitution, Museveni cannot stand for reelection in 2006, and he recently proposed amending the constitution to allow political parties to compete in the future (*The Economist,* 2003b).

It is difficult to judge how effective decentralization has in fact been, but plans to further decentralize the fiscal system have been promulgated, and a poverty-weighted scheme for regional distribution of local government grants has been implemented (Republic of Uganda, 2001b, p. 24). There seems to be general agreement that with a boisterously free press and local elections, the central government can hear concerns and aspirations and has been quite responsive, as evidenced by the Poverty Eradication Action Plan and the participatory assessment program.

These decentralization efforts do not appear to have made officials fully accountable. The government reports (Republic of Uganda, 2001b) that in a survey of private-sector perceptions of the country’s commercial justice institutions, more than 65 percent of respondents categorized magistrates courts, the land registry, and the companies registry as “corrupt.” These findings are reinforced by corruption-perception rankings from Transparency International (2002), in which Uganda was ranked 88 out of 91 countries in 2001. In the same report, Kenya was ranked 84 and Tanzania 82, making corruption appear to be a more serious problem in Uganda than in neighboring countries (despite the much greater press coverage of corruption in Kenya). What is most worrisome is that the Transparency International scores for Uganda (on a scale of 1 for worst and 10 for best) have declined in recent years: 1998, 2.6; 1999, 2.3; 2000, 2.3; and 2001, 1.9. The relative ranking has also declined over those years, from 73 out of 85 countries in 1998.

Svensson (2001) presents a quite extraordinary paper based on surveys of Ugandan businesses. He argues convincingly that it is possible to obtain good information on the types and costs of corruption. He found that corruption is a pervasive problem in Uganda, particularly for large firms dealing in international trade. In order to release goods from customs, bribes are required. In order to ship goods for export, bribes again are required. Obtaining a telephone line or electricity hookup also requires extra payments. Negotiating tax liabilities is another area where businesses are subject to "holdup." On average, for all firms, corruption accounts for about 6.5 percent of total costs, while fuel amounts to 6.2 percent, interest payments 8.3 percent, and wages 18.6 percent.[21] This underestimates the total costs, because, as Svensson shows convincingly, firms paying bribes have to spend a lot of time negotiating with the bureaucracy, and firms paying higher amounts have lower growth (controlling for other factors). The prevailing poverty reduction strategy therefore puts primary emphasis on keeping officials from extracting rents by increasing competitive market mechanisms. That clearly was the rationale for liberalizing the crop marketing systems and is consistent with the government's competitiveness strategy and agricultural modernization initiatives.

During the period of economic collapse, as the government became unable to provide basic services in rural areas, many village- and district-level voluntary organizations were formed. Some of them provided village schools and rudimentary health-care services. Many were women's organizations, some of which included rotating savings groups. This "social capital" is of great potential and has been mobilized effectively in dealing with the HIV/AIDS crisis through community education, provision of information, and changing attitudes toward safe sexual practices and the destigmatizing of the orphans and widows of victims. These networks of associations have been mobilized for the Participatory Poverty Assessment exercise. Unlike many other African countries, Uganda has embraced and encouraged these organizations and has not attempted to control them. It remains to be seen what range of activities these organizations can undertake, but they certainly have great potential.

The third pillar of the PEAP strategy is to improve the ability of the poor to raise their incomes. The government (Republic of Uganda, 2001b, pp. 51–52) refers to a series of rural surveys that have associated the fall in poverty, particularly among food-crop farmers, with diversification, featuring an expansion of nonfarm income: "Using a recent data set on rural livelihoods covering 107 Ugandan villages, Pender et al. (2001) found that expansion in non-farm activities was more common where roads and rural markets were well developed. These studies provide support to the PEAP emphasis on rural roads and education as key actions for reducing rural poverty. Deininger and Okidi (2001) confirm that education and infrastructure are important factors explaining the expansion in rural household incomes. They also find that households facing health problems at the beginning of the period experienced income growth that was significantly lower than [for] those with no such problems."

At this point, a strategy for increasing the poor's access to productive assets has been formulated, but little can be reported about its implementation. The assets that have been

[21] Svensson (2001), Tables 10.2–10.5.

identified include land, perennial crops, livestock, and credit. A plan for enhancing the National Agricultural Advisory Services has recently begun. Four agricultural research development centers have been established, an outreach program for microfinance development has been agreed upon, and a land tenure strategic plan has been developed. Planning for rural electrification using a public–private partnership employing "smart subsidies" is also proceeding. A draft white paper on the sustainable maintenance of district, urban, and community access roads has been completed as well. A strategy for increasing strategic exports, particularly horticultural items, too, has been identified.

These concepts seem to be extremely well thought out and have arisen from commissioning and paying attention to surveys and analyses. The chief issue facing the country is whether these sensible plans can and will be implemented, given the previously discussed problems of corruption and ineffectiveness of public institutions.

The fourth pillar of the PEAP strategy is to improve the quality of life of the poor through providing services. The three priority services are education, health care, and water/sanitation.

To address the first service, Universal Primary Education has been announced as a high-priority program in Uganda. Enrollment has increased, and the pupil–teacher ratio has improved, from 65:1 to 58:1, from 2000 to 2001. More than 10,000 additional teachers have been recruited, and unqualified teachers are being given a three-year in-service training program. Incentives aimed at attracting teachers to remote areas also have been instituted, and budgetary increases have been allocated for textbook acquisition and classroom expansion. However, questions remain as to the degree to which increased expenditures are resulting in improved, effective education. "While the above achievement provides reason to be optimistic, concern has emerged over the number of pupil dropouts, especially amongst poor children and girls. … For those pupils who did drop out permanently, the most important cause is the cost of education, according to the National Service Delivery Survey. … Important reasons for temporary non-attendance include poor health (64 percent), failure to pay extra charges required by [the] school or PTA (52 percent), and lack of [a] school uniform (42 percent). Insecurity was also mentioned by 52 percent of the households in the Northern region." (Republic of Uganda, 2001b, pp. 73–74.)

In the health sector, user charges were abolished on February 16, 2001. As a result, the number of patients seeking treatment in government clinics has increased substantially. However, this has put increased pressure on the health service, and decline in the quality of services is an immediate threat. Despite additional budgetary allocations to health, immunization coverage of children actually declined between 1995 and 2000. Infant mortality increased in the Northern and Western regions during the same period, while improvement in the Central and Eastern regions was much less than targeted.

Regarding the third priority service, a substantial amount of donor support has been given to water projects. However, "With a substantial increase in resources a significant increase in outputs in the same period was expected, but instead annual outputs dropped by around 8 percent. … A rough calculation suggests that the costs required to increase rural safe water coverage by 1 percent has tripled over the last 4 fiscal years. … Potential explanations include … the decentralization process, initiated in 2000/01, has revealed low district capacity; and activities under donor project assistance have tended to be relatively expensive.” (Republic of Uganda, 2001b, pp. 78–79.)

It is clear that improved incentives for the poor to increase their output through macroeconomic stability and liberalization of domestic trade have been effective in reducing poverty. More targeted programs are being devised and implemented, but their effectiveness remains to be seen. Public institutions suffer from inefficiency and corruption, and decentralization does not appear to have improved them to an appreciable extent.

THE IMPETUS FOR REFORM

Museveni came to power and immediately faced political, security-related, and economic crises. The challenges were clear, and something had to be done. It took some years to devise effective policies for macroeconomic stabilization, with the key event coming in 1992 with the adoption of the “technocrats” strategy for fully floating the exchange rate and implementing strict budget discipline. Effective implementation of liberalization of the coffee marketing system was also implemented in 1992, while reform of cotton marketing was not truly implemented until 1994.

Although these reforms could not have been implemented without the full support of the president, international donors, particularly the World Bank, played an important role. Spang (2003) provides information that suggests that a critical role of the Bank was to provide technical-assistance funding. This funding allowed the creation of an elite “super service” for a small group of extraordinarily capable Ugandans to staff the policy implementation unit in the Ministry of Finance, Planning, and Economic Development. These officials received much higher pay than did ordinary members of the civil service, their employment was based on explicit implementation of performance criteria, and they came to wield considerable influence with the president. They had no independent political base but were supported by the president based on the success of the measures they introduced. In turn, they had direct access to donors and were essential to the country’s ability to attract much-needed resources.[22]

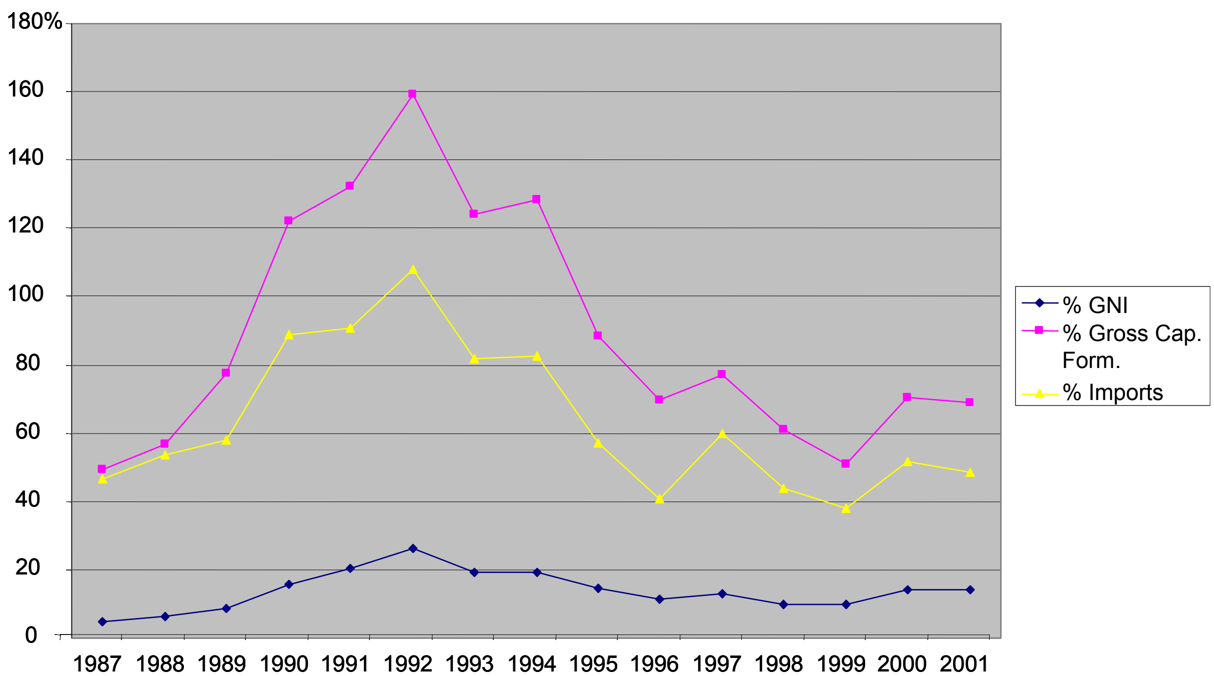
Indeed, total official development assistance (ODA) has been substantial and of critical use in Uganda. The most readily available data on total aid flows appear in the World Development Indicators database, which reports gross ODA as proportions of various macroeconomic variables. These data are depicted in Figure 18, which shows the rapid peaking of flows in the 1990–1994 period. These figures, however, are improbably large. In the peak year, 1992, assistance amounted to some 23 percent of gross national income (GNI), slightly more than 100 percent of imports of goods and services, and 160 percent of gross

[22] Kreimer et al. (2000, p. 46) evaluates the Bank’s programs and concludes that, “The TA project built a competent team of economists within the core ministries and put data collection systems in place. It gradually developed a team of technocrats with enough knowledge and understanding of short-term changes in the economy to manage policy reforms while maintaining macroeconomic stability.”

capital formation! It must be kept in mind that these are gross inflows, and that a substantial amount of debt service was being paid at the same time.

Another available data series tracks net concessional aid, which can be calculated as a share of GNI. This series is plotted in Figure 19 and has a similar time pattern as the gross ODA series. Note, however, that only in the peak year, 1992, does the net aid, according to this measure, exceed 1 percent of GNI. Over the same period, the net series averages about one-twenty-fifth the level of the gross. Clearly, there are problems in interpreting these readily available measures.

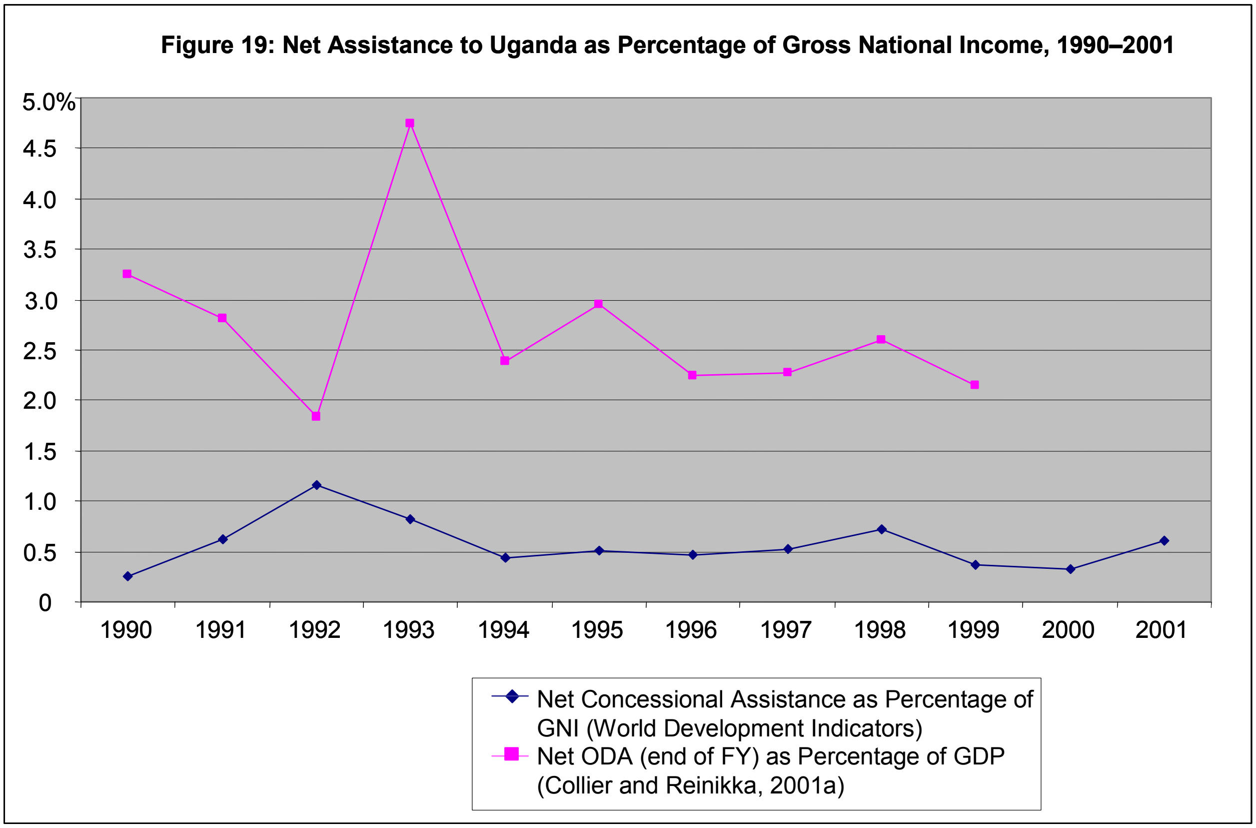
Figure 18: Total Aid Flows to Uganda as Percentage of Shares, 1987–2001



Source: World Development Indicators

A more reasonable and reliable measure is for net ODA, as calculated by Collier and Reinikka (2001a), also plotted in Figure 19, for the end of the fiscal year for which they are reported. Here, net flows peak in 1992–1993, at 4.75 percent of GDP. Collier and Reinikka also calculated that net private inflows were less than 1 percent of GDP in the early part of the decade but rose to about 2 percent of GDP in 1999. The difference, of course, is that the net flows deduct debt repayment from the gross flows. A major part of reported aid reflects largely the "recycling" of existing debt and does not depict the magnitude of the current resource transfers to developing countries.[23]

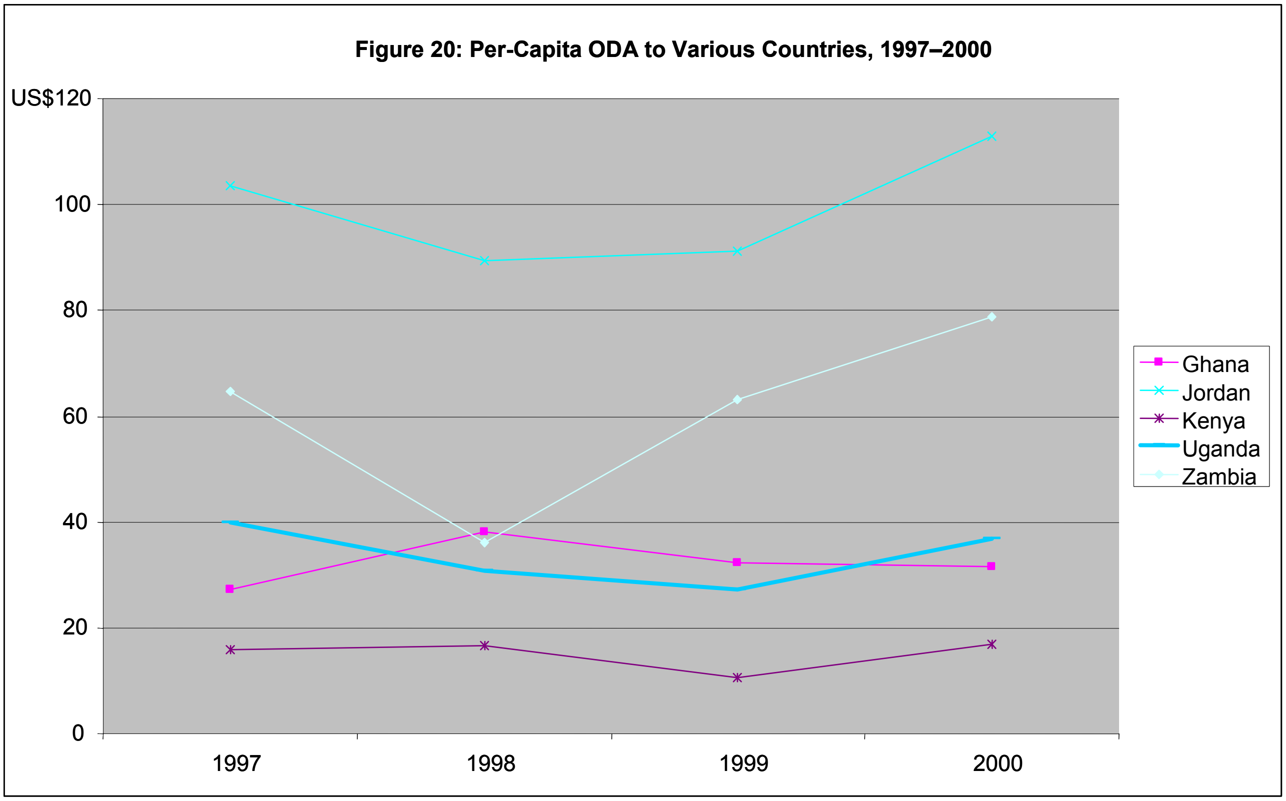
[23] Uganda was the first country to qualify for debt relief under the Highly Indebted Poor Country (HIPC) initiative led by the World Bank and the International Monetary Fund. About 50 percent of the face value of Uganda's debt has been written off, subject to agreements to use a substantial portion of the "saved" expenditure for health and education. Uganda's experience is well-documented by the International Monetary Fund and the International Development Association.



Clearly, official aid has been important for allowing Uganda to step up investment while increasing private consumption in order to reduce poverty. It appears that the "conditionality" associated with aid has led to reforms that have benefited the poor. Note that, as Easterly (2001) argues, the mere provision of aid and imposition of conditions have not led to improved well-being among the poor in many countries. Uganda, however, appears to be a success story.

Uganda has been seen by many as a "darling" of international agencies. How large have its aid flows been relative to those of other countries? Figure 20 shows that per-capita gross aid inflows have been less than US$40 per year to Uganda, almost double the amount supplied to Kenya, about the same as received by Ghana, considerably less than that received by Zambia, and a small fraction of the levels supplied to Jordan.[24]

[24] Note that these readily available data are for gross ODA flows, which, we have argued, are huge relative to net flows. Nevertheless, the relative measures are probably not misleading.



The World Bank also used a project for rehabilitating Uganda's sugar sector to "push" the government to state that Amin's expulsion of Asians in 1972 had been a costly mistake. It became policy in 1992 that Asians would be welcomed back and that they could reclaim assets of theirs that had been confiscated. By 1990, those assets had little remaining value, but the symbolism was important, and Asian capital and entrepreneurship did return. Indeed, a substantial part of the measured repatriation of capital is from Asians.[25]

The role of Western-trained technocrats working with international donors but having credible "ownership" of the programs is not unique to Uganda. The success of the Indonesian technocrats in the 1970s and 1980s; the Peruvian technocrats in the 1990s; the Thai technocrats, with their ties to the Thai Development Research Institute, in the 1980s and 1990s; and the Mexican technocrats in the 1990s all come to mind as being very similar. In all these cases, the technocrats had influence based on their access to external resources and because their policies produced visible success. They are always "apart" from the general civil service, however, and have powerful enemies in the line ministries, which remain centers for rent extraction.

In some cases, they have become victims of their success. When the economy is no longer in crisis, politically connected interests mobilize to preserve and create sources of rent

[25] The sugar project was important because it enabled the rehabilitation of Uganda's foremost private business concern, the Madhvani Group. The return of Madhvani to Uganda pioneered the influx of Asian skills and capital, which are now helping to transform the economy (Kreimer et al., 2000, p. 46).

extraction, and the technocrats lack the political base to prevail.[26] At the present time, the Ugandan technocrats appear to be in a strong position. The clearly thought-out program for poverty eradication, the careful attention to monitoring and using scientific studies for modifying programs, and the enlistment of popular participation in assessments are hallmarks of their approach. At the implementation level, however, the prevalence of corruption, inefficiency, and special interests poses true bottlenecks.

At the same time, the international community is committed to Uganda's success. It was the first country to qualify for debt relief under the Highly Indebted Poor Country (HIPC) initiative, and it appears to have used the resulting debt relief to increase expenditures in health care, education, and water supplies targeted to the poor. The evidence we have reviewed, however, suggests that, in those programs, Uganda may have been more successful in increasing expenditures than in obtaining results. One additional area of great success has been in containing the HIV/AIDS pandemic. The HIV prevalence rate was reduced from 14.0 percent in 1995 to 6.1 percent in 2000. This has been an extraordinary achievement and must help alleviate the country's most severe poverty, which is associated with victims of this disease. As the pandemic is sweeping southern Africa, Uganda stands out as a model.[27]

CONCLUSIONS

Uganda was a "basket case" in 1986, when the National Resistance Movement under Yoweri Museveni came to power through a successful guerrilla war. The country had suffered from more than 15 years of misrule, violence, and pillaging of economic resources by Idi Amin, Milton Obote, and short-lived military regimes. Real GDP had declined by more than 40 percent, and the response of the populace was to retreat from formal-sector economic activity into primarily subsistence production. The government lost the ability to mobilize resources through an orderly fiscal system, foreign exchange was unavailable, and high levels of inflation were the result of uncontrolled expansion of the money supply through financing deficits. The influential Asian commercial group had been expelled by Amin in 1972, resulting in capital flight and a collapse of the country's established trading systems.

The Museveni government, which has been in power for the past 16 years, has made remarkable progress. First, order was restored in most of the country and a relatively disciplined army was created. Then, early reconstruction, particularly of devastated coffee-producing areas, was undertaken. Gradually, economic growth became positive, inflation rates declined to moderate levels, private investment expanded, and coffee exports recovered.

A critical step was taken in 1992, when a strategy for macroeconomic policy was adopted and implemented by an extraordinarily capable group of "technocrats" within the Ministry of

[26] Spang (2003) describes in detail the basis of opposing interests, particularly in the Ministries of Agriculture, Cooperatives, and Trade, and the general resentment of the regular civil service for the elite status, pay, and working conditions of the technocrats.

[27] A separate study on HIV/AIDS has been commissioned as part of the overall Pro-Poor Economic Growth Research Studies. The World Bank (2003) provides a brief summary of the Ugandan approach to combating HIV/AIDS as well as links to other information.

Finance, Planning, and Economic Development. The key policies were adopting a floating exchange rate, which eliminated the parallel-market premium; instituting a strict program of budget control, which also limited the expansion of the money supply; and dismantling the previous system of official controls on marketing coffee and cotton through monopsonistic cooperatives and marketing boards to allow free, private trade in purchasing and exporting crops. These, of course, are the standard policies that have been advocated in many structural adjustment programs in Africa and elsewhere, many of which have been unsuccessful.

From 1992 to 2000, per-capita real GDP in Uganda grew at almost 8 percent per annum. There was a bit of "good luck" with a temporary surge in world coffee prices as a result of frost in Brazil. It is clear, however, that the increase in world prices was transmitted to peasants through the newly competitive marketing system, and that there was a rise in marketed output. Private investment increased, as did government investment, particularly in infrastructure rehabilitation, with the help of international-donor assistance. The proof that this has been more than mere good luck is that even since coffee prices fell drastically, Uganda's growth has been sustained.

We have excellent data on household consumption from a series of national surveys that allow us to assess the degree to which poverty has been alleviated as a result of this growth. Using household measured consumption, a poverty line was constructed consistent with consumption of 3,000 calories daily per adult male equivalent. The proportion of Ugandans having consumption below this poverty line declined sharply, from 56 percent in 1992 to 35 percent in 2000. For rural areas, the decline was from 60 percent to 39 percent, and in urban areas, 28 percent to 10 percent. This remarkable achievement is not sensitive to the arbitrary choice of the poverty line because real per-capita consumption increased in every decile of income distribution. Inequality, measured by Gini coefficients, remained stable within both rural and urban areas, although the overall measure of inequality increased slightly as a result of net transfer of population from lower-income rural areas to higher-income urban areas. Poverty reduction arose from growth rather than from redistribution, and the benefits of growth were widely distributed.

Poverty rates declined in all sectors, but agricultural progress was the dominant factor. Between 1992 and 1996, 48 percent of the overall decline in poverty was experienced in the cash-crop sector, which accounted for 19 percent of the total population. This is not surprising, given the coffee boom of 1994 and 1995. However, between 1996 and 2000, the poverty rate declined dramatically in the food-crop sector and fell further in the cash-crop sector. Other sectors, being significantly smaller, accounted for much smaller shares of overall poverty reduction (for example, manufacturing, 3.7 percent; construction, 1.0 percent; and government services, 7.6 percent).

The primary channels through which policies have affected poverty reduction are the exchange rate and increased competitiveness in the liberalized trading system. Together, these caused prices received by peasant producers to increase dramatically, which both increased their income from existing production levels and provided incentives for expanded production. These effects were quite evident for producers of export crops. However, the even more important poverty reduction for food-crop producers is a bit surprising. It appears that the general improvement in transport and competitiveness of traders provided opportunities for peasant farmers to increase their production and marketing surpluses. In addition to increasing income from agricultural production, they also diversified their production and increased their participation in rural nonfarm activities (principally trading and services).

Why has Uganda succeeded in reducing absolute poverty as a result of adopting "Washington consensus" structural-adjustment policies, when so many other countries have failed? First is the Ugandan commitment to the program and the fact that it was actually implemented. The structure of the economy also proved favorable. Uganda is overwhelmingly agricultural: Some 84 percent of the population is still classified as rural, and within the rural sectors, production is almost exclusively undertaken with family labor by smallholders. Land is relatively available, and the response to the crises of the 1970s and 1980s was the retreat into subsistence production. Even today, more than 80 percent of food grown by peasant families is for their own household consumption. The typical unit grows food for its own consumption and markets surpluses when market opportunities arise. Many also grow some cash crops. When inputs are available in markets, smallholders purchase implements, fertilizer, pesticides, and improved seeds and livestock. In addition to agriculture, the families engage in other small-scale trading and fabricating activities. Wage labor in rural areas is not widespread, and many agricultural families have members working elsewhere (principally in towns) and receive remittances from them.

In a crude sense, Uganda is highly rural and relatively egalitarian in terms of access to land. Therefore, increasing opportunities to produce surpluses for the market at prices that provide incentives have resulted in higher real income and consumption for peasants who have been able to respond. However, it is likely that the "easy" gains have been realized. Those remaining in poverty probably have specific characteristics that make them less able to respond.[28] There is also evidence that those who have increased their incomes the most in rural areas have had more education, better health care, and more assets such as livestock and land (Larson and Deininger, 2001). This is consistent with evidence from other countries in that poverty reduction is more widespread in regions where education and health-care levels are high and landlessness relatively low.

Uganda has adopted a well–thought-out poverty reduction strategy that has four pillars: sustaining economic growth and structural transformation, ensuring good governance and security, increasing the ability of the poor to raise their incomes, and improving the quality of life among the poor. The first two pillars are responsible for most of the progress that has been made in Uganda's poverty reduction. The restoration of security has played an important role, and the persistence of insecurity in the North explains its higher levels of poverty and lower rates of progress in reducing poverty.

A set of programs is now in the early stages of implementation for increasing the ability of the poor to raise their incomes. The programs include transport improvements, increased

[28] See Bevan and Ssewaya (1995), for an interesting analysis of the social dimensions of poverty, and Republic of Uganda (2000a), for contemporary reports on which people are most disadvantaged.

access to markets, microfinance, agricultural research and extension, and education. These represent the beginning of special programs targeted to the poor. It is too early to say how effective they will be, but the low performance of public institutions and the prevalence of corruption will pose obstacles to success. The existence of many locally based voluntary organizations may play a role. These institutions have been significant in dealing with the HIV/AIDS pandemic and represent a largely unrecognized pool of social capital that can be harnessed to help the poor.

Major programs, many with considerable donor assistance, have been devised to provide primary education, health-care services, and clean water and sanitation for the poor. So far, expenditures have increased considerably, but concerns remain about the effectiveness of these programs to increase the level and quality of services reaching the poor.

Uganda stands out in terms of the remarkable achievement it has made in recovering from violence, civil war, and economic collapse. Its high rates of growth in the 1990s have resulted in significant reductions in the incidence of extreme poverty. The government has been forthright in making poverty elimination its principal goal and formulating a coherent strategy for achieving it. However, the remaining challenges are enormous, but there is reason to be optimistic and believe that progress can be maintained and even accelerated.

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The goal of the USAID-funded Pro-Poor Economic Growth Research Studies and Guidance Manual Activity is to identify and disseminate policies, reforms, and activities that USAID decision makers can incorporate into their programs and that they can recommend to countries wishing to pursue strongly pro-poor, poverty-reducing, economic growth objectives.

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